S. Hrg. 99-119

ECONOMIC IMPACT OF THE FY 1986 BUDGET PROPOSALS ON THE STATE OF INDIANA

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

FEBRUARY 11, 1985—INDIANAPOLIS, IN
FEBRUARY 12, 1985 { TERRE HAUTE, IN;
EVANSVILLE, IN
FEBRUARY 13, 1985—NEW ALBANY, IN
FEBRUARY 14, 1985 { FORT WAYNE, IN;
SOUTH BEND, IN
FEBRUARY 25, 1985—HAMMOND, IN

Printed for the use of Committee on the Budget

U.S. GOVERNMENT PRINTING OFFICE
49-960 O WASHINGTON : 1985

S251-6

COMMITTEE ON THE BUDGET

PETE V. DOMENICI, New Mexico, *Chairman*

WILLIAM L. ARMSTRONG, Colorado
NANCY LANDON KASSEBAUM, Kansas
RUDY BOSCHWITZ, Minnesota
ORRIN G. HATCH, Utah
MARK ANDREWS, North Dakota
STEVEN D. SYMMS, Idaho
CHARLES E. GRASSLEY, Iowa
ROBERT W. KASTEN, Wisconsin
DAN QUAYLE, Indiana
SLADE GORTON, Washington
JOHN C. DANFORTH, Missouri

LAWTON CHILES, Florida
ERNEST F. HOLLINGS, South Carolina
J. BENNETT JOHNSTON, Louisiana
JIM SASSER, Tennessee
GARY HART, Colorado
HOWARD M. METZENBAUM, Ohio
DONALD W. RIEGLE, JR., Michigan
DANIEL PATRICK MOYNIHAN, New York
J. JAMES EXON, Nebraska
FRANK R. LAUTENBERG, New Jersey

STEPHEN BELL, *Staff Director*
RICHARD N. BRANDON, *Minority Staff Director*
W. THOMAS FOXWELL, *Director of Publications*

CONTENTS

HEARING DAYS

Page
February 11, 1985—Indianapolis, IN 1
February 12, 1985—Terre Haute, IN 127
February 12, 1985—Evansville, IN 219
February 13, 1985—New Albany, IN 301
February 14, 1985—Fort Wayne, IN 375
February 14, 1985—South Bend, IN 473
February 25, 1985—Hammond, IN 705

STATEMENTS BY COMMITTEE MEMBERS

Senator Quayle 1, 127, 219, 301, 375, 473, 705

WITNESSES

Adams, Edward R., treasurer/assistant superintendent for fiscal affairs, New Albany-Floyd County Consolidated School Corp 344
Arensman, Dr. Ray W., McCurdy professor of economics, University of Evansville 236
Belt, Charles E., vice chairman, Indiana State Legislative Committee of American Association of Retired Persons 93
Blee, Tom, chairman, Greater Fort Wayne Chamber of Commerce 446
Bolenbaugh, Robert R., office manager, Worman & Associates Insurance Agency, Fort Wayne, IN 427
Borders, Rhonda, director, social services, Planned Parenthood of Southwestern Indiana 287
Breimeier, Rev. Jonathan 295
Chalos, Hon. P. Pete, mayor, city of Terre Haute, IN 127
Dittoe, James T., president, Metropolitan Evansville Chamber of Commerce 233
Duke, Phillip R., chairman, Indianapolis Chamber of Commerce, and partner, Phillip R. Duke & Associates 30
Dunkelberg, William C., associate professor of management/economics, Purdue University, West Lafayette, IN 32
Field, Clark, member, Witness for Peace 293
Frey, William, president, Franklin Mortgage Corp., Indianapolis, IN 59
Gent, Donald I., executive director, Welborn Memorial Baptist Hospital, Evansville, IN 250
Gerig, Louis E., chairman, board of directors, Indianapolis Public Transportation Corp., Indianapolis, IN 102
Gettelfinger, Dale, director, Monroe Shine & Co., Inc 318
Graham, Arthur E., executive vice president, Indiana Highways for Progress, Inc., Indianapolis, IN 107
Gray, Clifford E., Jr., chairman, United Automobile Workers Local 1226 746
Groom, Gary L., executive vice president of finance and secretary, Coachmen Industries, Inc., Elkhart, IN 563
Grossman, William A., president, Metropolitan Indianapolis Board of Realtors 56
Hatcher, Hon. Richard Gordon, mayor, Gary, IN 709
Hart, John C., executive director, Indiana Housing and Finance Authority 43
Hoover, David B., executive director, Rauch Rehabilitation & Developmental Services 350
Howard, Robert E., vice president and treasurer, Mutual Security Life Insurance Co., Fort Wayne, IN 430

Page
Hudnut, Hon. William H., III, mayor, Indianapolis, IN ... 2
Hunter, Hon. Charles G., mayor, New Albany, IN ... 310
Hyde, Lawrence H., president, AM General Division, LTV Aerospace and Defense Co., Livonia, MI ... 534
Justice, Brady R., Jr., president, Basic American Medical, Inc., Indianapolis, IN ... 72
Keller, David, Esq., Fort Wayne Public Transportation Corp ... 449
Kessler, William A., trustee, Aluminum, Brick & Glass Workers International Union, Local 104, Newburgh, IN ... 267
Kreilen, Thomas H., vice president of finance, Res-Care, Inc ... 351
Kuhlman, Merle F., senior vice president and economist, Merchants National Bank & Trust Co., Indianapolis, IN ... 23
Laudeman, William D., Esq., president, Chapter 326, National Association of Retired Federal Employees, Evansville, IN ... 269
Liley, Arthur, president, Spicer Axle Division, Dana Corp., Fort Wayne, IN ... 406
Matthews, Robert S., Jr., executive director, Center City Corp. of Evansville, IN ... 248
McDermott, Hon. Thomas M., mayor, Hammond, IN ... 707
McKnight, Darryl, chairman, Interested Minorities Political Action Committee of Evansville ... 295
Metcalfe, Edwin C., vice president and general manager, WPTA-TV, Pulitzer Broadcasting, Fort Wayne, IN ... 386
Monroe, Richard P., Jr., Southern Indiana Peacemakers, New Albany, IN ... 368
Morris, Leigh E., president, LaPorte Hospital, Inc., LaPorte, IN ... 679
Morrow, Joseph T., chairman of the board, Mercantile National Bank of Indiana, Hammond, IN ... 720
Moses, Hon. Win, Jr., mayor, Fort Wayne, IN ... 376
Murphy, Christopher J., III, president, First Source Bank, South Bend, IN ... 516
Oliver, Marsha M., president, Indianapolis Private Industry Council, Indianapolis, IN ... 95
Orem, Hon. Dale L., mayor, Jeffersonville, IN ... 302
Parent, Hon. Roger O., mayor, South Bend, IN ... 473
Parton, Jack, director, District 31, United Steelworkers of America, AFL-CIO, East Chicago, IN ... 733
Perron, Hon. James P., mayor, Elkhart, IN ... 501
Post, David P., senior manager, Burns Harbor Plant, Bethlehem Steel Corp ... 542
Ray, William H., executive director, Terre Haute Area Chamber of Commerce ... 133
Reis, Veronica, associate director, Outreach Ministries ... 292
Rolland, Ian M., president and chief executive officer, Lincoln National Corp., Fort Wayne, IN ... 415
Sheets, Judith E.A., director of planning and development, Calumet College, Hammond, IN ... 566, 728
Sheffel, Wally, president, Eagle Picher, Fort Wayne, IN ... 410
Sierra, Raymond, executive vice president, Great Lakes District, International Longshoremen's Association, AFL-CIO, and business agent for ILA Local 1969, Port of Indiana, Portage, IN ... 731
Singer, Dr. Leslie, P., professor of economics, Indiana University Northwest, Gary, IN, accompanied by Dr. Edith Allen-Schult, Portage, IN ... 726
Smith, James T., chairman, Magnavox Government & Industrial Electronics Co., Fort Wayne, IN ... 387
Solomon, Reverend, Indianapolis, IN ... 123
Solso, Theodore M., vice president, special markets, Cummins Engine Co., Columbus, IN ... 327
Stackhouse, Marion, president, Indiana Farm Bureau, Inc., Indianapolis, IN ... 118
Stella, Kenneth G., president, Indiana Hospital Association, Indianapolis, IN ... 80
Strains, Steven R., director, transit services, Northwestern Indiana Regional Planning Commission, Highland, IN ... 734
Styring, William, III, vice president of public finance, Indiana State Chamber of Commerce ... 16
Teeple, Charles, vice president of communications, Humana, Inc., Louisville, KY ... 317
Thompson, Earl S., director, State and regional public affairs, Inland Steel Co., Indiana Harbor Works, East Chicago, IN ... 723
Toops, Carolyn, Taxpayers Association of Vigo County, Inc., Terre Haute, IN ... 152
Tyler, Gary F., executive vice president, Clark County Chamber of Commerce ... 315
Ulrich, Tom, coordinator, Department of Social Ministry, Catholic Charities Bureau, Diocese of Evansville, IN ... 280

Page
Vandeveer, Hon. Michael D., mayor, Evansville, IN 220
Webb, E. Lee, director, Terre Haute Operations, International Minerals & Chemical Corp., Terre Haute, IN 143
Williams, Bruce, international representative, United Auto Workers 745

APPENDIX

Letters:

Bartley, Robert E., division vice president, Whirlpool Corp., Evansville, IN 752
Botner, Ronald, AIA, president, BDA Corp 754
Buckmaster, Virginia, Fort Wayne, IN 466
Grenchik, Hon. Joseph B., mayor, Whiting, IN 755
Hoover, Dave, executive director, Rauch Rehabilitation and Developmental Services, Inc 774
Joyce, Timothy C., placement and recruiting coordinator, AFL–CIO Appalachian Council 756
McRitchie, Mary Beth, Valparaiso, IN 758
Noe, Nicholas W., director, region VI, National Association of Railroad Passengers 769
Purdue University faculty, staff, and students 770
Rowe, Bette S., Rowe Industries 467
Toupin, Leo R., chairman, Hoosier Falls Private Industry Council, Inc 771
Waltermann, Hon. Frank H., mayor, Richmond, IN 775
Zoeller, Robert, captain, U.S. Navy (Ret.) 777

Statements:

Alford, Hon. Paul O., mayor, Aurora, IN 778
Arden, Paul D., secretary treasurer, Indiana Association of Railroad Passengers 780
Barada, Paul W., chairman, Southeastern Indiana Private Industry Council 782
Bass, Reginald W., citizen, Indianapolis, IN 786
Beering, Dr. Steven C., president, Purdue University 788
Brewer, Francis, alternate national legislative director, United Transportation Union 792
Bromberg, Michael D., Esq., executive director, Federation of American Hospitals 810
Calumet Railcar Task Force, Calumet Project for Industrial Jobs 817
Crowley, Bill, administrator, Northwest Indiana Area Library Services Authority 824
Farber, Dr. Robert H., member, Indiana State Legislative Committee of AARP 195
Ford, Jon A., president, Richmond Area Chamber of Commerce, Inc 825
Geshwiler, Hon. Elton H., mayor, Beech Grove, IN 827
Grauel, Richard L., member, Federal Task Force on Small Business, Greater Lafayette Chamber of Commerce 833
Hale, Robert D., immediate past president, Indiana Beef Cattle Association 198
Howarth, David H., president and chief executive officer, Lafayette National Bank 837
Juday, S. Paul, executive director, Independent Livestock Marketing Association 205
King, William H., chairman of the board, Second National Bank of Richmond, IN 839
Margerum, Hon. Sonya L., mayor, West Lafayette, IN 845
Mast, Paul L., president and general manager, ITT Aerospace/Optical Division, Fort Wayne, IN 848
May, James C., president, Wabash Valley Hydraulic Service Center, Inc 208
McEntee, Sister M. Martin, president, St. Joseph Memorial Hospital, Kokomo, IN 852
McMinimy, Vernon R., director of commodity research, A.E. Staley Manufacturing Co 858
Mitchell, M. Jay, general manager, Terre Haute Transit Utility 214
Morrison, George, Coalition for a New Age 371
NAHRO Position, Financing Operations of Federally Assisted Public Housing 865
Pillow, George E., executive director, Indiana State Housing Board 867

Page

Statements—Continued

Potratz, Thomas H., member, National Council of Management Associations, Inc 877
Riehle, Hon. James F., mayor, Lafayette, IN 891
Shappell, Diann, executive director, Northeast Area III Council on Aging, Fort Wayne, IN 468
Terre Haute, IN:
  Engineering Department 154
  Finance Department 156
  Fire Department 161
  Housing Authority 163
  Inspection Department 183
  Legal Department 187
  Park and Recreation Department 190
  Police Department 191
  Redevelopment 193
  Street Department 194
Wade, Jack, Vanderburgh County extension agent, Evansville, IN 299
Warren, Hon. Gerald E., mayor, city of Greencastle 216
Watson, Alonzo, executive director, Housing Authority, South Bend, IN 698
Whitehead, Kaye H., Seldom Rest Farm, Muncie, IN 896
Williams, Anna K., cochair, Northwest Indiana Welfare Reform Coalition 900
Woodson, Robert L., chairman, Council for a Black Economic Agenda 901
Wyss, Alen G., president, Old Fort Supply Co., Inc., Fort Wayne, IN 928
ZaVisca, Joseph, general manager, South Bend Public Transportation Corp 702

ECONOMIC IMPACT OF THE FY 1986 BUDGET PROPOSALS ON THE STATE OF INDIANA

MONDAY, FEBRUARY 11, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Indianapolis, IN.

The committee met at 11:37 a.m., in the Public Assembly Room, City-County Building, Indianapolis, IN, Hon. Dan Quayle presiding.

Present: Senator Dan Quayle.

Staff present: John Palffy, chief economist; and Greg Zoeller, legislative assistant.

OPENING STATEMENT OF SENATOR QUAYLE

Senator QUAYLE. I now call this hearing to order. Our first witness, the Honorable William Hudnut, has arrived. Let me make a brief protocol announcement. We will start with Mayor Hudnut. After that, we will have a panel of four: Mr. Styring, Mr. Kuhlman, Mr. Duke, and Mr. Dunkelberg. We will have a panel of three with Mr. Hart, Mr. Grossman, and Mr. Frey. Then, we will take a 15-minute break. After that, we will have a panel of two with Mr. Justice and Mr. Stella; another panel of two with Mr. Belt and Ms. Oliver; and the final panel will be Mr. Gerig, Mr. Graham, and Mr. Stackhouse. I would imagine that the 15-minute adjournment after the first three panels will be approximately 1, and that probably we will be able to conclude around 3:30 or 4. I am going to ask the witnesses to try to keep their testimony as short as possible so we can get in some questions, and also inform all the witnesses that their entire testimony will be put in the record.

CURTAIL FEDERAL SPENDING

I am having these hearings around the State in nine different cities, eight of them this week, and we'll be visiting Hammond on February 25. As far as I am concerned, this is a listening session. It is an education—to see what the reaction to the budget is to the people of Indiana, but also, to try to lay out some principles and have some discussion on where we're going to go in the area of spending restraint. I have taken the position that we in fact must curtail Federal spending. I think that as you look at the options we have, we can either go down the road to try to restrain Federal spending, to close the gap of the deficit that we have, or we can increase revenues. And I think the road best traveled for economic growth is to reduce Federal expenditures. The revenues over the years have been up and down, but reasonably constant. Only in the year of 1969 did we have more revenues than outlays and expenditures. But the gap, has increased, particularly in the last 3 of 4 years, because the spending has gone up and the revenues have remained rather constant. It seems that we ought to focus on the spending side of the ledger, rather than on the revenue side of the ledger.

And I believe as we focus on the spending side, and we travel down the road to seeing spending restraint, that at the end of this road, we will continue to see economic growth, economic prosperity, jobs and opportunities. If we don't do anything, that would be the worst case, I would think. If we just resort to the solution of raising revenues or raising taxes, I think it would be certainly counterproductive, in that it would have a very adverse impact, upon not only the State of Indiana, but also, our Nation as a whole.

So, with the idea that we are going to hear from the people of the State of Indiana, our first witness is from our No. 1 city, the Honorable Bill Hudnut. Tell us how we're going to get from here to there, or at least give us some advice on how we ought to be proceeding on budget hearings. Thank you, Mayor, for letting us come in to your fine building here and having these hearings. I certainly appreciate it, and you may proceed at your will.

STATEMENT OF HON. WILLIAM H. HUDNUT III, MAYOR, INDIANAPOLIS, IN

Mayor HUDNUT. Thank you very much, Senator Quayle. It certainly is a pleasure to have you here in the City-County Council Chambers, and we're very pleased that you're holding a Budget Committee hearing.

I have written copies of the statement that I want to make, that I think have been distributed. I would like to take just a couple of minutes to extemporize, and then if you want to ask me any questions, fine, and I'll read part of this if that's all right.

DEFICIT ACCUMULATING TOO LONG

First of all, let me say that I think that the deficit problem is the most serious problem that the Congress can face, and I think it's mandatory that it be faced in a bipartisan manner, and hopefully, by both the Executive and the Legislative branches of government. I feel that for too long, we have let this deficit accumulate to the point where now, according to some projections, we're looking at a $257 billion shortfall by fiscal year 1989, according to the findings of the Roosevelt Center, where I co-chaired with Governor Babbitt of Arizona, a task force on the deficit last year. That would be an intolerable situation because it would pile up on the children that are growing up now, an incredible debt that might be too heavy a burden for them to carry, and we must not commit fiscal child abuse in this country. I think that while it is important for us to recognize that we need to grapple with the deficit problem, we also must recognize that a basic principle involved in grappling is equity. We must try to spread the pain around, and do what is fair, and do the best we can, to see to it that everyone shares evenly in the burden.

To that end, it seems to me that there are ways in which the revenue side of the problem could be addressed, without necessarily having to raise taxes across the board. Our task force last year dealt with this a little bit, because we felt that it would be possible to tighten some loopholes in an effort to broaden the tax base, and gain maybe $92 billion by fiscal year 1989 to reduce the tax rates. We suggested, for example, limiting certain current exclusions, and tax shelters, and reducing the use of deductions.

You may recognize that this parallels a move in the direction of a modified flat tax. There are a lot of ways in which perhaps revenue could be enhanced, it seems to me, without having a tax increase. But second, of course, we have to recognize that we must do what we can to control the spending side of the budget, and that is where the major emphasis of this hearing is.

LIMIT SPENDING GROWTH

It seems to me, that it is not proper--and I say this as somebody who wants us to have a strong military budget, and who, as a Congressman, had a 100-percent rating on this from the chamber of commerce, and some other people that were interested in having a strong America. But it seems to me, that to exclude from the purview of the spending side of the budget, the Defense Department budget, is a mistake, just as I think to exclude Social Security and Medicare is a mistake, because there's where the real problem lies, and not in the so-called controllable part of the budget.

I'm no expert in these fields, but possibly we could limit spending growth, real growth, in the Defense Department, to 3 percent instead of 5 percent. That's what our task force suggested.

Possibly there would be ways that Social Security could be means tested, so that people at higher levels of income might not, after they have gotten back what they put in, receive as much as needier people.

FREEZE PROGRAMS

I think also, we have to recognize that there are certain restraints that ought to be effected in the remaining part of the budget, which is domestic spending, basically, and it seems to me, that we ought to freeze, rather than eliminate, a lot of these programs.

If we could freeze the $100 billion, or so, that is represented by Federal aid to State and local government, I think we'd be a lot better off, and we certainly would spread some of the pain around, than if we went after some of the identifiable categoricals, and cut them out entirely, like general revenue sharing.

For the cities of America, whether they're run by Republicans or Democrats, it seems to me domestic spending is obviously our bread and butter. We provide services to our citizens. We stimulate economic growth, we assist the needy, and create employment opportunities with these Federal funds.

SOCIAL DEFENSE NEEDED

We need a social defense as well as a military one. We need to protect ourselves against enemies at home, poverty, disease, and the erosion of the base of our cities, decay of the infrastructure, and so forth, as well as enemies abroad.

To this end, a task force that I chaired, called for a freeze, without hurting the truly needy and the unemployed, and if we had that freeze in lieu of eliminating some programs entirely, I think we'd be better off, Mr Chairman.

Let me just say a word about Indianapolis. We don't need all the Federal programs that we had in the late 1970's, when there were about 500 Federal programs available to the cities. But the basic ones are good, and I think should be left intact.

Most of them helped to promote the revitalization of the cities that you and I want to take place, in order to expand economic opportunity. These programs create a larger tax base, they create more jobs, they reduce the number of unemployed people, they stimulate growth when interfaced with local and State and private funds, like the UDAG Program, for example, for which Indianapolis is no longer eligible, according to the present regulations, stimulates private sector development at a ratio of 1 to 5.

The Community Development Block Grant Program sustains many important Human Service Programs, and also buttresses many of the developments that have to occur to repair the infrastructure and maintain it.

Grants for sewers and sewage treatment plans enable us to protect the environment and build new facilities, that we couldn't do on our own.

Job Training Programs, as you know, because you were the sponsor of the Quayle-Kennedy bill, which is what we call it here in Indiana. We don't call it the Kennedy-Quayle bill, and we appreciate everything that you did to help us. Job Training Programs prepare thousands of people for private sector employment.

Thanks to your help last year, this city which had a goal of 2,000 employees, or people to be employed in the private sector, economically disadvantaged young people, actually went to 2,600.

DO NOT ELIMINATE REVENUE SHARING

The UMTA funds supplement our Metro Bus Budget to the tune of about $8 million. If we lose this help, we'll have to cut services or increase fares. And what about revenue sharing? Indianapolis stands to suffer greatly, if the proposed elimination of revenue-sharing and other Federal funds is actually realized. We get $12.6 million of revenue-sharing money here in Indianapolis. It's all allocated to our public safety budget. Firemen, policemen and sheriff's deputies. If we lose that money, we will have to do one of two things, either find new sources of revenue, which would hurt us elsewhere, if we could do it, given the Property Tax Control Program, or, we would have to look long and hard at reducing Manpower and Womanpower.

Either option would be very difficult to a sensitive and yet a very real problem. So that I think the general revenue sharing, which is the most important program to elected officials all over the country, at the local level of Government, should not be eliminated, and certainly not before it is scheduled to expire in October 1986. And I would hope, Mr. Chairman, that you would help us in that because all over the country, 33,000 municipalities use revenue sharing, and half of it and more goes to public works and public safety.

And it is true that there are some communities that probably could survive without it, but not without a great deal of sacrifice in many other communities.

It's the glue that holds many local budgets together, and I think that what we have to do is freeze revenue sharing rather than eliminate it. I'm aware that it may sound self serving, and I may sound like a self-protecting institutionalist to say this, but I really feel that it's such an important program, and represents such a miniscule part of the total problem in the total budget, that we would be doing a disservice to these 35,000 municipalities, if we simply automatically eliminated it this year.

So we ask for an even-handed method of cutting the spending. We hope that liberals and conservatives can get together on this. It's a tough, tough problem, I admire you for working at it, and being concerned about it, and would be glad to respond to any questions that you might like to ask.

Senator QUAYLE. Well, thank you very much, Mayor Hudnut.

[The prepared statement of Mayor Hudnut follows:]

TESTIMONY OF
THE HONORABLE WILLIAM H. HUDNUT, III
MAYOR OF INDIANAPOLIS
TO THE
SENATE BUDGET COMMITTEE FIELD HEARINGS

February 11, 1985

Senator Quayle, members and staff of the Senate Budget Committee, ladies and gentlemen. My name is William Hudnut and it is indeed a pleasure to come before you today to give comment on the 1986 Budget and to discuss the impact of several proposed cuts that would have significant effect on our City.

I stand before you as mayor of the 13th largest city in the country. A City comprised of over 760,000 residents from all walks of life, most of whom, in some form or another, depend upon our various City departments for services - be they safety or transportation related, for example. Services that allow our residents to go about their daily routines in harmony.

Ours is a City recognized time and time again for its ability to marry the public and private sector in relationships that produce results. We are making great strides and take comfort in knowing that we can no longer count on both hands the number of private sector affiliates who are playing a part in the growth of Indianapolis.

But we believe the federal government must still be a component of our budgetary process. We need its help with program funding, and would be the poorer without it.

As co-chairman of a bipartisan task force on the deficit at The Roosevelt Center for American Studies, my colleagues and I took a long, hard look at the issue of the deficit and formulated the following solutions for balancing the Budget by the end of this decade. In our concluding document, "Breaking the Deficit Deadlock," the task force addressed the need for reform in several areas:

In tax policy, we propose tightening loopholes in an effort to broaden the tax base - and gain $92 billion in fiscal 1989 to reduce tax rates. To do so we suggest limiting current exclusions and tax shelters and reducing the use of deductions. This, Senator Quayle, you may recognize as a move in the direction of a modified "flat tax", but note that in the current level progressive rates are maintained.

We call for a reduction in the rate of growth in defense spending and I applaud the President's similar suggestion as a move in that direction. By slowing the arms stock-up pace, cutting back on needless weapons duplication and by improving the management of our weapons purchasing programs, we can make a significant savings without affecting our nation's strength or the safety of our citizens.

Thirdly, we suggest that, after ten (10) years of modest revision, the budget process needs reform, a subject which I am certain your committee has pondered on more than one occasion. To begin with, a hard and fast deadline should be established for comprehensive budget decisions by the President and Congress before the start of each fiscal year.

Perhaps the fourth and final point, and the particular issue that brings me here today, is the one that really hits home on state and local levels. Domestic spending is our bread and butter. We provide services to our citizens, stimulate economic growth, assist the needy and create employment opportunities - often with funding and supplements from federal programs. We need a social defense as well as a military one. We need to protect ourselves against enemies at home - poverty, disease, etc. - as well as abroad. To this end, the task force calls for creativity in the distribution of federal dollars to state and local governments. We recommend exempting cuts to programs that aid the unemployed and truly needy, but suggest a freeze in the total dollars spent on other programs - in lieu of eliminating some programs entirely.

We do not need all the federal programs we had in the late 1970's, when they added up to 500 or so, but the basic ones are good, and should be left intact. Most of them help promote the revitalization we want in the cities to expand economic opportunity. They create a larger tax base and more jobs. They reduce the number of unemployed people. They stimulate growth when interfaced with local and state and private funds. Urban Development Action Grants (UDAG) stimulate private sector development at a 1 to 5 or 7 ratio. Community Development Block Grants (CDBG) sustain many important human service programs, and many buttresses needed for infrastructure maintenance. Grants for sewer and sewage treatment plants enable us to protect the environment and build new facilities we could not offer on our own. Job training programs prepare thousands of people for private sector employment. Urban Mass Transit Authority (UMTA) funds supplement our

Metro Bus Budget, to the tune of about $8 million, and if we lose this help, we would have to cut services or increase fares.

And what about revenue-sharing?

Indianapolis stands to suffer greatly if the proposed elimination of revenue-sharing and other federal funds is realized. While some smaller cities consider their revenue-sharing dollars to be gratuitous and apply them to special, "wish-list" projects, we in Indianapolis treat those dollars as real and necessary budget components of the services we provide to our citizens.

In Indianapolis, $12.65 million of the revenue sharing money is directly allocated to our public safety budget. Normally these dollars are applied to the salaries of the men and women who serve in our police and fire departments - in the amount of $9.2 million and $550,000 respectively. Currently, in the police department alone, revenue-sharing accounts for 22% of the department's operating budget. The Marion County Sheriff's Department would also be affected, as it receives $2.9 million for use in funding its operations.

To absorb the loss of such funds, the City will be forced to seek alternative funding measures. We might have to use monies from the new Marion County income tax or take a long, hard look at having to reduce manpower. Either option is a difficult solution to a sensitive, yet real problem. We ask that, in considering the timing of any proposed cuts, your committee bear in mind that most cities have earmarked their portions of revenue-sharing and other federal funds in their 1985 and 1986 budgets and that to immediately eliminate those monies would be committing "fiscal suicide" for many municipalities.

My question to you is: "Where will it end ?" In the early part of this decade our cities were faced with staggering domestic cuts, many due to the elimination of the CETA Program. Through creative financing, we have been able to re-structure the jobs and municipal programs that fell with those federal cuts. In Indiana, the task was even more difficult because strict property tax controls leave few options for finding the necessary dollars.

I am not here today to suggest that you leave the cities alone and swing the chopping blade elsewhere. Let me just say that I have always felt that on the way to eliminating the deficit and balancing the Budget, cities have to be willing to take their share of cuts in the funds distributed by the federal government. However, this is not to say that we must bear a disproportionate brunt of the spending cuts that are likely to occur. Conservatives must be willing to look at the defense component of the Budget and, likewise, liberals at entitlements. Just as a fair and even distribution of our resources serves the majority, an evenhanded method of cutting our spending will antagonize fewer outlets.

I urge you to deliver the following message to Congress: When you whittle away at the municipal programs, take care that you do not remove the core of our American cities and towns.

Thank you.

FEDERAL SPENDING 25 PERCENT OF GNP

Senator **Quayle**. I think that there's certainly agreement; and I think this is a point that we've all got to understand, and I hope that this comes out during this week of hearings; that we are going to have to get ahold of the Federal spending side of the ledger in Washington.

Federal spending has gotten up as high as 25 percent of the gross national product. Revenues have stayed around 19 percent. Most people feel that to fulfill the goal, real economic growth, the budget should probably be around 20 percent, maybe 21 percent, which means that revenues would have to rise is a percentage point of GNP, but still, you're looking at the spending side, and getting at least 3 or 4 percentage points of spending cuts for every additional point of revenue that you may get.

Revenue may come through some of the loophole closings that you're talking about, a consumption tax, or economic growth. I mean by economic growth, that when you have the economy growing and people working, you're going to generate more revenues in to the Government.

Mayor **Hudnut**. Exactly right.

Senator **Quayle**. But I think as a general proposition, if we look at this economic growth, and everyone says:

> Well, Dan Quayle, if you're going to come in and tell us all no this week, and tell us that we can't spend as much as we have in the past, isn't that just going to be a very painful type of situation, and aren't you going to become, you know, Senator "Pain"?, and you're going to proportion this pain around equally?

Everyone says, "OK. We'll do it if we do it equally."

Well, my answer to that is really no, because if in fact we do get ahold of the spending side of the ledger, and we do get a reduction of spending down to, say, 20 percent of the gross national product, then this economic growth and the prosperity that we've had, at least in the last 2 years, can in fact continue.

I certainly commend you for your identification with some of the specifics. Your task force there has been very helpful. I think that you talk about the revenue side, and I think we ought to leave that aside for a while, because quite frankly, the way that the President wants the Congress to go, and I think that the Congress is willing to go is to say: "Let's tackle this spending side of the ledger, let's do this early on, upfront, and see if we can get a consensus on where we're going to go on cutting Federal spending."

You've identified, I think, properly so, that perhaps in defense—and I'm on the Armed Services Committee, and don't feel very strongly about it—that a 3 percent real increase is more of a realistic objective than, say, the 5.8-percent real increase, and I think that's probably about where the Congress will end up, after they go through all the gyrations of whether you're going to cut defense or not cut defense, and whether Weinberger's going to do this or that.

MEANS TESTING SOCIAL SECURITY

You propose an interesting idea about means testing Social Security. Thats quite a dramatic departure from what we've had in the past. Getting in to a philosophical discussion, I think that some time, later on, we ought to look and see if whether Social Security, and Medicare means testing, changes the nature of the programs from one that people invest in, and get their investment back on an actuarial sound basis. If you change it to means testing you're getting away from the basic premise of Social Security; that is, the new premise would be that it would be more of an Income Security Program rather than a retirement program, for which it was originally set up. I congratulate you for bringing that issue before me.

FREEZE EQUITABLE AND FAIR

About the idea of a budget freeze, I think that the idea of a freeze comes across as equitable and fair, as you're saying, Mayor Hudnut. If you're going to do this, and you've got to do it, do it in a fair way. I think that that's what we've got to do. There's certain responsibilities that we have. Protecting the Nation's shores is the No. 1 responsibility that we have. It's in the Constitution. Promoting the general welfare of the Nation. You know, that's in the Constitution, too, the general welfare.

If you look at just a freeze—if you would freeze, believe this or not—if you would just freeze defense spending, COLA's and Social Security, revenue sharing, everything else, you would get about $32 billion in fiscal year 1986 savings, and the President has said, and the Congress has basically agreed, we ought to try to get $50.

Mayor HUDNUT. If you froze defense and Social Security, did you calculate in to that what we'd save on the interest on the national debt?

Senator QUAYLE. We calculated it. The savings on the interest on the national debt you'd pick up in the out years, in 1987 and 1988. I was one of those who said, "Well, this may be a fairly easy way to do it." As a matter of fact, in a discussion I had with Dave Stockman back in November or December, I said, "Well, let's just look at these numbers on a freeze, if you wanted to go that way." He said, "Well, Dan, I'll tell you something: It only gets you $32 billion." And that's, everything, freezing across the board.

REVENUE SHARING NO. 1 PROGRAM

So now we're in this situation, and we're asking ourselves the question, "Are there programs that we can eliminate?" and I know the importance, as you have stressed here today, of revenue sharing and how important it has been to Indianapolis.

No one's talking about outright eliminating it this year, but even if you phase it out, there's going to have to be really serious adjustments, not only in Indianapolis but around the State.

I've heard from a number of mayors around the State, and they seem to target this as the No. 1 Program. If you had to look, from a mayor's point of view, is revenue sharing the No. 1 program, in importance, as far as the Federal Government distribution to you?

Mayor HUDNUT. Yes. Period, end of paragraph.

Senator QUAYLE. Period, end of paragraph. This is one of the reasons we're having these hearings today. We got into office at the wrong time. We should have gotten in to public office back there in the 1960's, and stayed in to the 1970's, or the early part of the 1970's, where you could go out, and just go ahead and spend. You didn't have to worry about any restraint.

Now, in 1985, you and I are up against the wall because we've got fiscal budgetary problems. At the Federal level the idea of revenue sharing is an oxymoron because there's no real revenue to be shared. There's deficits out there to be shared. There are not any revenues.

Are there programs that presently are coming into the cities that are just not terribly productive, that we could eliminate? Or are we basically looking at nibbling at the edges and trying to ratchet down the growth.

SOME PROGRAMS ARE ESSENTIAL

Mayor HUDNUT. Well, one that you eliminated in the first Reagan administration, which I think we did not need, and could very well live without, was the LEAA. Now, in this period of time, there are probably some programs that we don't need. I tried to identify the ones that I think we do need.

Indianapolis is going to have to live without the UDAG Program because according to the criteria, we're no longer eligible. My parks department people wouldn't like to hear me say this, but I think that probably we could do without the urban parks grants. For example, you had to figure out a place to cut, even though that money does something that's important. I don't think we can live without a bus system, though.

I don't think we can live without the ongoing revitalization of the central part of this town, which means that we need to have community development block grant funds, as well as some money from UMTA.

I think it would be very, very difficult to live without any help for sewage treatment plants, for the construction of sewers, for doing all the things that we must to protect the environment.

One place where we lost a lot of money in the first round of cuts in 1980 to 1984 was in DOT, and just to show you the kind of painful choices that it forces upon us when there's a devolution of authority and responsibility back to State and local government—the Feds aren't making it clear to people, that very often, there will be a consequent cut in services as a result of the reduction in Washington, unless local officials, who might have some hesitancy to do it, enact a tax increase.

We lost $4 million in the first round of cuts for our department of transportation budget, and so, with the help of the city council, even though we didn't want to do it, we enacted a new tax here. It was a surcharge on automobile license plates, and that created a fund here in Marion County. The State gave us the option to do it. It created a fund of about $4,000,000, all of which is going into street resurfacing and street repair.

So we had to do that at the local level to make up for what happened in Washington, but we can't always do that, and then you're forced to reduce services.

That's perhaps not answering your question directly, because what I'm trying to say is, that some of the Federal programs, such as these gasoline tax moneys that come back to us, are essential.

We have very, very little if any property tax in the local DOT budget, and most of it comes from these transportation-related sources, relating to user fees, and we need that money. We need a bus system, and we need to have streets that are free of snow, and all the chuckholes are filled.

ELIGIBILITY MAY BE LOST

Senator QUAYLE. If you can do something about that, we'd all be in good shape. As a matter of fact, one of the mayors, in responding to a letter that I sent out—I think it was Mayor Seymour—who said that, "Would you please do something about all the snow that we've had here in Indiana", which obviously would reduce some of the budget burdens that he's fighting in that particular city. I'm just trying to make a notation here, and trying to get a feel on a priority basis on, you know, what is critical and what is perhaps not. Revenue sharing obviously is. You talk about UMTA. For UDAG, you indicate that you don't think that Indianapolis is going to be eligible in some of the outyears.

Mayor HUDNUT. That's right. We are 347th on the list, or something like that, unless the regulations are changed. If you want the big three or four, we're talking about general revenue sharing, CDBG, and from my point of view, we can dispense with UDAG, although I think it's been a very, very good program. The third one would be some help with our mass transportation system, and a lot of people don't care about the bus system because they're wealthier, they own cars. But we have poor people, we have students, we have people that work at night, we have elderly and disadvantaged people who need the bus system, as well as commuters.

The fourth one is the waste water treatment, the environmental type of grants. If we're mandated by the Feds to clean up our water or clean up our air, and it's going to be a very costly project, we need some financial help to do it because we can't do it on our own.

Senator QUAYLE. What about EDA grants?

Mayor HUDNUT. Fine, but that's not the highest of priority.

AMTRAK IS NEEDED

Senator QUAYLE. OK. One other thing—it will be the last question—one we haven't touched on. Well, maybe you would include this in mass transportation, which I don't think it is, is Amtrak. Have you got any thoughts on Amtrak?

Mayor HUDNUT. I think the day is going to come when we must decrease our dependence on fossil fuels and decrease our dependence on the automobile as a system for transportation. Certainly, it seems to me, we need Amtrak in the Bull Wash corridor We may need it further out in the rest of the country. I think that if I see what's coming at all correctly, unless we figure out how to get some intermediate hauling on rails, we're going to, if we ever have a shortage of gasoline again, be back in the kind of problem we were in in 1973, and 1974, when we could really have used more rail transportation than we had, but it's got to be efficient.

And it seems to me, if we can learn anything from Europe and Japan, it is that there is a viability to rapid surface transit that we have not fully exploited and developed in this country.

Senator QUAYLE. OK. Mayor Hudnut, thank you very much for your testimony, your candor, and suggestions on how perhaps we can begin to reduce this deficit, and I can assure you that we'll take your ideas very seriously.

Mayor HUDNUT. May I have one concluding word? Keep on doing a good job. You're terrific.

Senator QUAYLE. Thank you very much. The next witnesses will be a panel of four. Mr. Styring, Mr. Kuhlman, Mr. Duke, and Mr. Dunkelberg. Mr. Styring is the vice president of public finance, Indiana State Chamber of Commerce.

Mr. Kuhlman is senior vice president and economist, Merchants National Bank.

Mr. Duke is the chairman of the Indianapolis Chamber of Commerce.

And Mr. Dunkelberg is an associate professor of management and economics at Purdue University.

What I'm going to try to do, gentlemen, is, if I can, get you to summarize your statements, say, in 5 minutes, to give us some time for some questions. We have a little light there. The green light means keep on going. When the red light comes on, that means your 5 minutes have expired, and if you can summarize your thoughts in 30 seconds, or 1 minute, I would appreciate it, so we can go on to the other witnesses and have time for questions.

Mr. Styring.

STATEMENT OF WILLIAM STYRING III, VICE PRESIDENT OF PUBLIC FINANCE, INDIANA STATE CHAMBER OF COMMERCE

Mr. STYRING. Thank you, Senator, for inviting us here today, although it does appear as though the weather reminded us that golf season has not quite arrived in Indiana.

Let me take just a quick moment to explain what kind of organization the State chamber of commerce is. We are a voluntary organization of about 5,000 business firms who study, analyze, and attempt to influence public policy.

Our members include virtually all the well-known corporations doing business in Indiana; Eli Lilly, United States Steel, General Motors, and so forth. But about 80 percent of our membership is composed of small businesses.

I should give you one small disclaimer before I get going here. Because we are a State chamber, the emphasis of our policy positions is in the State and local areas, and in many cases, we cannot claim to be expert in Federal macroeconomic matters. I would guess with you, however, that the majority of the businessmen and women in Indiana would agree with most of what I have to say here today.

GET SPENDING UNDER CONTROL

First, Senator Quayle, you are to be totally complimented for the emphasis you are placing on getting control of Federal spending. That is entirely the correct emphasis. It is spending that transfers resources from the private sector to the public sector. How those spending transfers are financed, whether or not they are through direct taxation, through borrowing, or by creating new monetary claims, and expropriating the private sector through inflation, that is an important question, but it is secondary to the question of Federal spending.

Let me give you several reasons on why you should stick to your guns on trying to get spending under control. First, it is not at all difficult to conjure up all sorts of tax increases, some of which have been more or less reasonably proposed by some of your colleagues, mostly on the other side of the aisle, which would be far worse than financing any given spending claim through borrowing.

A wild case example. I would assure you that we could probably close the Federal deficit, on paper, by taxing away all of the after-tax business income of businesses in the country, assuming that you did not have a second order effect, such as the economy coming to a screeching halt. I doubt that we would think that is a good idea. Second, in a very real sense, one of the reasons why those lines are not coming together up there is through the indexation of the personal income tax. By saying that, I am not suggesting that indexation be repealed. Nonetheless, the reason in the past why an analyst has almost always been able to project budget balance at some point in the future is, that the Federal personal income tax, when it was not indexed, was somewhat elastic.

The IRS would always make an honest man out of your colleagues; if we waited long enough, and assumed we would inflate fast enough. We'd simply generate an upward sweeping curve premise. And there are other reasons, but you are absolutely correct to focus in on Federal spending.

I have given in my written statement a little history that goes back farther than the outlay curve up there, as a percentage of GNP. If you want to go way back to the late 1920's, that redline up there was about 3 percent of GNP, or about one-seventh of where that chart begins.

By the immediate post-World War II period, it was up to slightly over 15.7 percent. That's a combination of the New Deal and World War II.

SPENDING OFF LIMITS

When the "Great Society" started around 1965, it was slightly under 18 percent. So you can see that that curve, if you were to project it back into history, has been going up. Senator, the President has seemed to place about 61 percent of Federal spending off limits. That is, interest on the Federal debt, defense, and Social Security.

I am here to tell you that the vast majority of the Indiana business community would support almost any budget package which truly got a handle on Federal spending. I am not saying there would not be business men and women who would object to a particular item. But the Federal budget has been fed an ever-increasing share of our economy for a very, very long time, and it is time that that process stopped.

Now, within that 61 percent, or so, that the President has placed off limits, I can't tell you exactly what to do. Your own staff, John Palffy, in particular, has some interesting ideas on indexing Federal debt. The Heritage Foundation has some interesting ideas on Super IRA's and Social Security.

Finally, on the question of defense spending, we have to rely on you. We all want a strong national defense. Whether or not you need AMRAM, or the MX, heck, we don't know. You know more than we do and we have to trust you.

My redlight is on and I shall shut up.

Senator QUAYLE. Thank you, Mr. Styring.

[The prepared statement of Mr. Styring follows:]

STATEMENT TO U.S. SENATE BUDGET COMMITTEE -- SENATOR DAN QUAYLE

February 11, 1985
William Styring III, Vice President
Indiana Chamber of Commerce

Thank you, Senator Quayle, for inviting the Indiana Chamber to appear before you today. Let me describe briefly the organization I represent. The Indiana Chamber is a voluntary association of nearly 5,000 business firms in Indiana. Our members do business in every sector of the economy -- manufacturing, retailing, mining, and services -- and span the entire range of size. Eli Lilly, U.S. Steel, General Motors and many other well-known large corporations belong to the Chamber, but so do about 3500 "small" businesses.

You have asked that we comment on what is desirable public policy for the Senate Budget Committee to follow in the coming months. A state chamber of commerce should approach such an assignment with some humility. Our policy positions are mostly attuned to state and local finance questions and not to matters of macro-economic stabilization policy. With those disclaimers to brilliance on record, let me plunge into the thicket to offer some observations with which most Indiana businesses would likely agree.

1. The "cost" of government is not what government taxes but rather what it spends. A good deal of analytic difficulty can be avoided if this simple observation is kept at the forefront. A focus on deficits is simply the wrong focus.

   It is the act of spending -- laying claim to real goods and services for the public sector -- which creates the burden of government. Resources government commands are not available to the private sector. How spending is financed is an important but still secondary consideration. Taxes extract claims on resources directly from the private sector. Borrowing induces the private sector to voluntarily part with some of its present claims in exchange for enhanced future claims. Money creation simply creates new claims and, if done to excess, expropriates the private sector through inflation.

   An historical look at federal spending is instructive.

   Federal Expenditures as a Percent of Gross National Product

1912-16	1.8%
1925-29	3.0%
1947-49	15.7%
1955-57	17.7%
1960	18.5%
1965	18.0%
1970	20.5%
1975	22.5%
1980	22.9%
1981	22.5%
1982	24.5%
1983	25.0%
1984	24.0%
1985 (e)	24.8%
1986 (Projected)	23.2%

Federal spending jumped dramatically in the two decades encompassing the New Deal and WW II. Another (smaller) leap took place in the decade following the initiation of the Great Society. Since then, federal outlays as a share of GNP have jumped around, partially because of cyclical factors, but have trended generally upward.

Even if all of the "cuts" proposed by the President in his FY '86 budget are enacted, the federal government will still be larger in relation to the economy than the FY '81 budget which he inherited. The President's proposed FY '86 budget is an heroic attempt to reverse the trend toward bigger government, but it would still represent a very big government indeed!

What does all this imply? The federal public sector has not been starved of resources in gross terms, and every effort should be made to whack away at spending. And not just "waste, fraud and abuse." Privatization or outright elimination of programs is in order.

The President seems to have placed about 61% of projected FY '86 outlays "off limits" -- interest, social security and defense. But even here, if one is serious about controlling the true cost of government, there are some good ideas. The Heritage Foundation's "Super-IRA" plan deserves consideration as an idea to preserve social security while slowly weaning us away from governmental transfer payments as the primary means of old age security. Your own staff has some intriguing ideas for experimenting with indexed Treasury securities.

But in the case of defense, I think most Indiana business men and women would be of one mind. Spend what is necessary (but not more) for a solid national defense. Very quickly we would bow to your superior information as a member of the Armed Services Committee. We do not know, for example, whether AMRAAM should be cancelled or whether the strategic arguments for the MX make sense. We can't guard against everything and realize prudent trade-offs are necessary. We endorse a strong -- but not recklessly expensive -- defense.

2. Deficits can clearly be harmful to economic growth by crowding out private investment. So far in this recovery, that has not happened. However, budget policy, as noted above, should focus on spending.

   A few remarks about the deficit problem. Deficits are bothersome and potentially dangerous, but to be all-consumed by "deficit-fighting" is the wrong emphasis.

   a. In the first place, it is not hard to conjure up all sorts of tax increases (to "fight the deficit") which are far more harmful than federal borrowing. For example, confiscating all after-tax corporate profits would just about drive the FY '86 deficit to zero (if one assumes no second-order effects, such as the U.S. economy grinding to a screeching halt).

      The point is that everything else equal we'd prefer smaller deficits, but the only clear way to "fight deficits" which unambiguously helps the private sector as a whole is to control federal spending.

b. Second, in a very perverse sense, the "structural deficit problem" is the product of one thing, and one thing only: the indexation of personal income taxes.

Before indexation, it was always possible for an analyst to pick some inflation rate which, coupled with "bracket creep," at some date in the future predicts federal revenues exceeding some baseline estimate of federal outlays. A deficit could always be projected away. This is how Walter Heller could argue in the mid-1960's about "fiscal drag" and how Presidents Nixon, Ford and Carter's budgeteers could always project a balanced budget eventually. Personal income taxes increased about 1.6% for every 1% increase in nominal dollar personal income. Inflate fast enough and wait long enough, and the IRS would make honest men out of even the most spendthrift members of Congress.

Well, indexing does away with all that. Federal revenue is stuck on about 19% of GNP and to increase it Congress would have to 'fess up to overt tax increases. Are we thereby "worse off" because marginal tax rates no longer rise with inflation, politicians must be honest, and economists can no longer project budget balance without spending cuts? Hardly.

c. Which leads to how we really are financing both our internal and external deficits. Some very strange and largely unnoticed things have been happening in the international capital markets. It is well known that there is now a massive capital inflow from overseas into the U.S. Indeed, the dollar continues to hit new highs against major foreign currencies despite a merchandise trade deficit exceeding $100 billion per year. The mental picture created is one of hordes of Frenchmen, Germans, Third World residents, etc. etc. slipping their francs, deutschmarks and rupees from underneath the mattress and rushing to buy real assets and T-bills in the U.S.

In reality, something far different seems to be going on. International flow-of-funds data indicates that foreign capital flowing to the U.S. has not changed much in magnitude. What has happened is that U.S. citizens are choosing to invest far less abroad and far more at home. The 1981 Economic Recovery Tax Act reductions in effective marginal tax rates on capital investment (particularly ACRS) have improved corporate cash flow and spurred a capital spending boom financed by dollars which otherwise may well have found their way overseas. This explains the paradox of both large federal deficits and high demand for private capital goods coexisting without "crowd-out."

How long could such a happy situation persist? No one knows, of course. One can only observe in history that once clear trends in net capital flows are established, they have often persisted for a very long time indeed.

d. Finally, a note about the High Growth scenario profounded by our colleagues at the U.S. Chamber as a means to shrink and eventually eliminate the deficit through real growth:

This "supply-side" analysis seems to have become a topic of scorn and derision among much of the Washington economics establishment. One wonders why. All that is required is that in the decade of the 1980s the U.S. economy perform slightly less well than during the decade of the 1900s. The reasons why this may be so have been amply remarked-upon by many non-supply siders as, by example, the prospects for above average productivity gains because the last cohorts of the Baby Boom have now been absorbed into the labor force.

Yet we have difficulty squaring up these clearly socio-demographic trends into a medium range forecast. One almost gets the impression that the proposed FY '86 budget is backed by a long-term 4% real GNP growth rate assumption mostly because no one had a clear vision of what might happen, and 4% was "safe."

Let me summarize:

1. Federal spending is the true cost of the federal government. How that spending is financed is important but of secondary importance. The most important goal of the Senate Budget Committee should be to restrain spending.

2. Deficits are not to be laughed off, but neither should they become an all-consuming passion:

   - Many tax increases would be far more harmful than borrowing.

   - The "Structural Deficit" is mostly due to indexation of personal income taxes, but it is by no means clear that this makes us worse off.

   - U.S. citizens are increasingly choosing to invest at home rather than abroad. In large part, this is what allows vigorous U.S. capital spending and large federal deficits to coexist. Further, this state of affairs may persist.

   - The U.S. Chamber's high-growth scenario is more likely than the conventional Washington wisdom credits it.

Thank you, Senator, for allowing the Chamber to appear here today. We offer you and your staff our total cooperation in your quest for responsible federal budget-making.

Senator **Quayle**. Mr. Kuhlman.

STATEMENT OF MERLE F. KUHLMAN, SENIOR VICE PRESIDENT AND ECONOMIST, MERCHANTS NATIONAL BANK & TRUST CO., INDIANAPOLIS, IN

Mr. **Kuhlman**. Senator, I am an economist and I am very concerned about the status of the Federal budget and the deficit. These concerns are outlined in my formal report which you have. Other analysts might take exception to one or more of these specific concerns, but I know of no economist who is not deeply worried about the subject from one point of view or another.

In my own opinion, the large deficit might have these undersirable impacts. It may place restraint upon future fiscal policy options. It may force a higher level of interest rates. It may retard growth of private sector investment. It poses a risk of higher inflation. It may exert upward pressure on the exchange value of the dollar, and finally, it places a burden upon future generations in one form or another.

I'd like to focus my attention upon my concern that the deficit may retard the growth of the private economy. Granting that there are some functions for the public good that can be performed only by the Government, I believe that a disproportionate part of our country's resources are being allocated to Government. With reference to your own chart, my own calculations indicate that real gross national product rose 39 percent between 1972 and 1984, while real Government spending grew 63 percent, or much faster than the economy that is supporting it. While public attention is being focused upon the deficit, I believe that the fundamental problem is the level of Government spending.

CHANNEL FUNDS TO PRIVATE SECTOR

I believe that if some of the funds now channeled to Government were available to the private sector or the economy, these funds could be used for capital spending to increase jobs, and reduce the high level of unemployment, which is unacceptable to all of us. I urge Congress to use this philosophy in forming legislation in 1985, and am delighted to hear your own expression and view on that.

The public has an important decision to make. Would we rather have 24 percent of our gross national product in the hands of the Federal Government, or, would we rather have some portion of these funds returned to the private sector or the economy? If we, as a nation, prefer to see no cuts in Government spending, then I believe we have to face up to the subject of the deficit, by and of itself. With a deficit of around $200 billion, we are living far beyond our means. A deficit has to be paid for, one way or another, sooner or later. If we wish to continue the current level of spending, then we have to be prepared to pay for it now, in the form of higher taxes, and in the process, in my opinion, we then resign ourselves to a slower rate of economic growth. This alternative is a very distant, second place in my own mind. Thank you.

Senator **Quayle**. Thank you very much, Mr. Kuhlman.

[The prepared statement of Mr. Kuhlman follows:]

PREPARED STATEMENT OF MERLE F. KUHLMAN

(The following report has been prepared for presentation to the Honorable Dan Quayle, U.S. Senator, state of Indiana, 2/11/85)

THE U.S. FEDERAL BUDGET DEFICIT --
PROBLEMS AND APPROACHES TO SOLUTION

SENATOR QUAYLE:

It is an honor to have been asked to present my observations regarding the problems posed by the federal budget deficit and possible solutions to the problems. I consider the mammoth deficit to be the most worrisome economic problem facing our country today.

Merle F. Kuhlman
Senior Vice President & Economist
MERCHANTS NATIONAL BANK & TRUST CO.
Indianapolis, Indiana

I. THE PROBLEMS POSED BY THE LARGE FEDERAL BUDGET DEFICIT

The prospect of continuing huge federal budget deficits has been in the forefront of discussions between economists for several years. Reasonable people often differ in their analysis of the subject. Therefore, the following points represent my own concerns since burden of proof is illusive:

A. Possible restraint upon future fiscal policy options

Deficits that occur during recessions often play a positive, supporting role for the economy. These cyclical deficits help cushion the severity of the recessions by providing people, rather than the government, with revenue. Sizeable deficits that linger on into recovery offer the threat of weakening the effective use of fiscal policy as an economic tool. For example, let us assume that the economy turns down in the immediate future. It is easy to envisage the deficit swelling to frightening levels, causing disenchantment with the dollar in exchange markets, failure of interest rates to come down thereby preventing the economy from recovering.

B. Possible raising of the level of interest rates

Experience over the past decade suggests that three factors have had a major impact upon changes in long-term interest rates:

1) the rate of inflation
2) the state of the business cycle, and,
3) the focus of my attention in this report --- the budget deficits which determine the government's demand for credit.

Whatever its source, an increase in the federal budget deficit must be financed. The public must be induced to invest a larger proportion of its wealth in government securities and, in the process, the Treasury may "crowd out" the competing private sector claims on the available supply of savings. Competition for savings tends to push interest rates higher. In this sense, a larger government deficit implies a higher level of real interest rates. Furthermore, because security markets are forward-looking, expectations of large deficits are a factor influencing the level of rates. One may also theorize that, since a budget deficit is characteristic of an expansionary fiscal policy, it may require an offsetting restrictive monetary policy which also puts upward pressure on interest rates.

C. Possible retardation of growth in private investment

Sizeable deficits during periods of economic recovery may have a deleterious effect upon business investment. As the private credit demands for the nation's available savings grow, the competition between the U.S. Treasury and the private economy for these savings may push up interest rates to a level which "crowds out" interest-sensitive sectors of the economy, thereby retarding the growth of private sector investment.

D. Possible risk of higher inflation

Historically, major inflationary periods have often been associated with government deficits. However, deficits need not cause inflation. Many economists believe that it is the decision of the Federal Reserve Board to "monetize" the deficit, involving rapid money growth, that leads to higher inflation. According to this theory, the existence of a large budget deficit poses a constant threat of an excessively easy monetary policy by the Federal Reserve Board and higher inflation.

Our country is currently enjoying relatively low inflation. It is well to remember that our policy efforts to reduce the rate of inflation have been aided significantly by exogenous factors such as the world over-supply of crude oil and the benefits of a sharply rising exchange value of the dollar which has lowered the price of imported goods. There is a risk of a relaxation of the policy vigil to maintain this favorable contribution to our economic future.

E. Possible pressures on the exchange value of the dollar

As expressed above, the expectation of continued large budget deficits may have contributed to the high level of interest rates. These high interest rates may have attracted funds for investment from abroad, helping to push up the exchange value of the dollar. There is the risk of a growing dependency upon foreign funds to finance these deficits, adding an element of instability to the domestic economy, namely, the possibility of future withdrawals of these funds by foreign investors.

The rising exchange value of the dollar has served to swell imports to the detriment of domestic production. In other words, "crowding out" has occurred in our net export position which has deteriorated rapidly in the past year.

F. Possible compounding effect of interest costs on the debt

The most recent Congressional Budget Office figures I have seen project that expenditures for interest payments on the federal debt will rise from $111 billion in 1984 to $214 billion in 1989, assuming a constant 9% average interest cost. Without a reduction in the budget deficit, it may be necessary to borrow money just to meet the interest costs on the rising debt. The compounding effect tends to be frightening.

G. Possible postponement of the problem to future generations

All federal expenditures must be paid for sooner or later. Government borrowing only postpones the payment of taxes. Is it fair to shift the burden of the massive debt to other generations?

In my opinion, these risks are of sufficient magnitude, collectively, to pose a threat to the growth and stability of the U.S economy and merit top priority for legislative action by the U.S. Congress in 1985.

II. APPROACHES TO SOLUTION OF THE PROBLEMS

Not only should the U.S. Congress take action to reduce the federal budget deficits in 1985--it is equally important that the right action be taken.

The actions generally suggested for reducing the federal budget deficit are these:

1) actions to increase economic growth;
2) an increase in taxes;
3) a reduction in the growth in federal government spending.

A. Increased Economic Growth

A fairly recent study undertaken by the Congressional Budget Office at the request of Representatives Gingrich (Ga.) and Mack (Fla.) concluded that a 1% increase in the rate of economic growth would contribute twice as much to deficit reduction as would a spending freeze. However, I do not consider that either of the following traditional means of stimulating economic growth represent viable options at this stage in the business cycle:

1) by reducing taxes--which helped to exacerbate the deficit problem after enactment of the Economic Recovery Tax Act of 1981 since it was not accompanied by a reduction in spending of worthwhile magnitude;

2) by an expansive policy by the Federal Reserve Board. Most academic studies have supported the opinion that rapid expansion of the money supply eventually leads to higher inflation. A large federal budget deficit is, of itself, inhibitive to the freedom to employ such a policy since the combination of stimulative fiscal policy and stimulative monetary policy surely courts another round of inflation.

It is my opinion that there are constraints of manpower and productive capacity which preclude reliance upon actions to stimulate faster economic growth for the purpose of reducing the budget deficit. Manufacturing is currently operating at approximately 82% of capacity and the prospect of continued economic growth in 1985 offers the possibility of raising this rate to a level which has tended to lead to inflationery pressures in the past. While an unemployment rate in excess of 7% may imply ample supply of manpower, much of this unemployment is among the unskilled segment of the labor supply.

B. An increase in taxes

Raising taxes is counter-productive.

The conventional case for reducing the deficit is that government borrowing crowds out the private sector by absorbing savings that might otherwise finance private sector growth. If, however, we were to finance government spending with higher taxes, those taxes would also absorb savings that might otherwise finance private sector growth.

The private sector can be expected to react to a tax increase in one of two ways:

1) attempt to maintain the same level of spending.

If the private sector is determined to grow at the same rate regardless of how the government raises its money, higher taxes will fail to reduce interest rates. The increase in tax revenues will raise the government's cash flow and reduce its borrowing requirement, but it will, simultaneously, curtail the private sector's cash flow and increase its borrowing requirement. Private sector borrowing simply replaces public sector borrowing. Marginal borrowers will be crowded out of the credit markets in precisely the same manner that deficit financing crowded them out.

2) reduce its spending.

If, on the other hand, the higher tax rates suppress private sector demands, interest rates might go lower, but so will private sector spending be lower and another form of "crowding out" will have occurred. Higher taxes can crowd out just as effectively as high interest rates.

Do we want to risk either outcome? I think not.

C. A reduction in the growth of Government spending

Theoretically, deficits do not matter since government spending must be financed one way or another and both taxes and borrowed money take money away from the private sector. What does matter is the size of government spending and what the private sector would have done with the money if the government had not spent it. A reduction in government spending would have these results:

1) Total demand for credit would decline, probably accompanied by a decline in interest rates;

2) funds now allocated to the government would be available to the private sector.

> "Increases in the size of government normally reduce the aggregate production of goods and services, primarily through the effect on the economy's efficiency and on people's perception of their wealth"
>
> --Federal Reserve Bank of Dallas

I believe that a reduction in the relative size of the government would permit a higher rate of growth in the private economy.

It is my strong conviction that the correct way to address the problem of the federal budget deficit is to reduce government spending. Gradual elimination of the deficit will restore flexibility to government fiscal and monetary policies and permit their use to serve the country's long range best interests.

III. THE MEANS BY WHICH GOVERNMENT SPENDING MIGHT BE REDUCED

I must defer to students of the federal budget as to the appropriate specific actions which might be taken to reduce government spending. The following ideas, expressed by others, should be explored:

A. Put into effect the recommendations of the Grace Commission;
B. Institute a freeze on government spending. This has the benefit of fairness as perceived by the electorate, all of whom must sacrifice in one way or another;
C. Revise current laws as they apply to indexing. It makes no sense to index both taxes and spending.
D. "If you want to make a big dent in spending, one has to look at defense and middle-class entitlements--social security, medicare, civil service pensions, and the like"

----Rudolph Penner

In conclusion, keeping in mind---

> "THE PRACTICE OF DEFICIT FUNDING HAS
> ENFEEBLED EVERY STATE WHICH HAS ADOPTED IT"
>
> ---Adam Smith, The Wealth of Nations

---The OPPORTUNITY is great,
The REWARDS would be exciting,
The TIME is NOW.

MFK
5578b

Senator QUAYLE. Next, Mr. Phillip Duke.

STATEMENT OF PHILLIP R. DUKE, CHAIRMAN, INDIANAPOLIS CHAMBER OF COMMERCE, AND PARTNER, PHILLIP R. DUKE & ASSOCIATES

Mr. DUKE. Thank you, Senator. My name is Phillip Duke. I am the president of Phillip R. Duke & Associates, a real estate development firm here in Indianapolis. In addition, I'm the chairman of the Indianapolis Chamber of Commerce.

The chamber is a business organization that represents more than 2,600 local and area businesses of all kinds. Eighty percent of our membership have fewer than 50 employees.

The chamber's mission is to influence the development of the greater Indianapolis area for the purpose of maintaining a favorable business climate, and creating economic growth.

This mission will be accomplished on behalf of the business community, particularly chamber members, by providing direct services, by representing members on matters that affect them, and by directing member resources toward community issues that are of importance to them.

We appreciate this opportunity to share with you the feelings of the central Indiana business community on the current State of our Nation's economy. We are here because we want to be a part of that solution, and to offer our assistance to you and Congress as you take on the difficult task ahead of you.

The actions taken by the Congress in the next several months will determine the course our Nation will follow for the rest of this century. It's a difficult task but one which we must face up to and accomplish.

America is at a historic crossroads. We are hoping that the tax and spend philosophy of the past 40 years has been replaced by an administration and a Congress dedicated to decreasing the size of Government while increasing productivity, investment, and opportunity for our citizens.

The Congress must take steps now to maintain an environment that is conducive to continued economic growth and development, by continuing the movement from an inflationary economy to a stable economy.

The results will be increased investment and employment, a new confidence among investors, more stable and efficient interest rates, and a disappearing deficit. The one thing that could prevent us from moving ahead is also the main cause of current deficits—excessive Government spending.

EXCESSIVE GOVERNMENT SPENDING IS A DISEASE

Deficits are but a symptom. The disease is excessive Government spending, and it must be brought under control. Again, we appreciate that this is a difficult task. Special interest groups will pressure you from all sides to preserve this program, or save that exemption, or increase their budget, and we realize that we, as business people, have been a part of that problem in the past.

Today, I am here to tell you that we think there should be no sacred cows. Deficits can be cut, and inflation held in check for the long run in one way—by cutting Government spending at all levels, and in all areas.

Initially, we would suggest that the Federal Government take a lesson from Indiana and Indianapolis, and operate in a fiscally responsible manner. Long-term priorities must be set, abuse and inefficiency eliminated, counterproductive and ineffective programs eliminated, incentives be given for management excellence and rewards granted to those who achieve streamlining and economizing in Government.

Specifically, we would support deindexing of civilian and military retirement and Social Security benefits, and a freeze on Federal employment.

Senator, we understand that it's unpopular to say this, but we feel we must. Additionally, the Congress must look to business subsidies, defense spending, farm price supports, welfare and food stamps, Medicare, student loans, veterans' benefits, revenue sharing, and other areas where real cuts can be made.

While doing these things, we urge keeping the Federal Reserve System as the independent body charged with controlling inflation. Only with lower Government spending, and more investment by business and individuals, can interest rates and inflation both be checked.

We don't have the expertise to say how much, or where, specifically. We are saying that no area of the Federal bureaucracy and no kind of Government transfer or entitlement, even for business—and we're here representing business—should be free of consideration for spending cuts.

DON'T RAISE TAXES

Turning to taxes, we have a very simple message. Don't raise taxes! Taxes are a disincentive to investment, growth and opportunity. To add on, or raise taxes now, would be to throw cold water on what this administration started in 1981. Indexing must be maintained, quick fix remedies should be avoided, and any shifts in allocating the burden of taxes should be phased in and aimed at taxing consumption, rather than savings or investment.

We do need tax simplification but not a tax increase. We need to cut the size and growth of Government, and its impact on the private sector in all possible ways, including compliance with complicated tax codes.

Senator, we realize the magnitude of the task before you, and your record is clear, and we support your efforts of the past, and your commitment to the future.

We're here to congratulate you, and to offer our support during the weeks and months to come. This is just an opening salvo for us. The Indianapolis Chamber of Commerce intends to continue to carry this message to our Representatives in Washington. What we as a nation do now will have long-term effects. Deficits are important, but economic growth is what keeps this country going, not by raising taxes, but rather, by reducing the size of Government, further reducing the rate of inflation, and creating a tax and spending structure with incentives to invest, the deficits will come down.

Congress must act now! The longer we wait, the larger the problem becomes. There is a geometric progression. And the larger the problem, the more difficult it is going to be to bring it under control.

The first, most difficult steps, must be taken now, and we pledge our support to you, and your congressional colleagues in this effort. Thank you.

Senator **Quayle**. Thank you very much, Mr. Duke.

Next is Mr. Dunkelberg.

Mr. **Dunkelberg**. I don't know what is left to say, now that I am last. Whatever it is, I think it probably bears some repeating.

Senator **Quayle**. Let me identify you. This is Dr. William C. Dunkelberg who is the associate professor of management/economics at Purdue University. Go ahead.

STATEMENT OF WILLIAM C. DUNKELBERG, ASSOCIATE PROFESSOR OF MANAGEMENT/ECONOMICS, PURDUE UNIVERSITY, WEST LAFAYETTE, IN

Mr. **Dunkelberg**. Thank you. Let me just say a little, first, about the deficit. Let me give it to you in just a somewhat different form, which I think will make clear, at least to other listeners—I'm sure not yourself, since you are well acquainted with this—some of the difficulties we face.

NATIONAL DEBT COULD DOUBLE

When Mr. Reagan was first elected President, the national debt stood at somewhat less than $1 trillion or so, and now we are looking at hitting $2 trillion, say next year, depending on how our forecasts are. So we will have doubled in a very small number of years, a debt that took us from, say, 1776 until 1980 to accumulate.

Now the implications of that are many, and some of them have already been mentioned, but just from a budgetary point of view, let me point out, and I think you are familiar with this—that we are spending, now, roughly, $100 to $120 billion on just the interest to service that debt. Once we go to $2 trillion, say, at an average interest rate of 10 percent, we are looking at $200 billion.

That implies that we need a tax increase of, say, $80 billion, just to cover the increased interest obligation, holding all other spending and everything else constant.

That would be something that would be very difficult to do. Second, were we to, say, tomorrow, successfully bring the deficit to zero—just for fun—we are still going to be stuck with roughly $2 trillion of Federal debt to digest.

That is, we have got to get people to hold all this stuff. How do you get people to hold stuff? Well, Government bonds, like any other commodity, the more you make of them, the more you dump out into the market, the lower the price you have to charge, which means higher interest rates.

We have got to pay people high interest rates to continue to hold this stuff, and that is going to create problems for us for some time in the future, even if we stop adding to the stock of that debt right now.

So we have some very serious problems there. Every quarter, I get to survey a sample of around 560,000 small businesses, nationwide, and one of the things they always tell me is something like the following: Why should I invest my money in my business, or reinvest my money in my business, when I can earn such a good rate of return on Treasury bills with no work and no risk? So that kind of competition from the Federal Government, we can do without, if we want to have strong private sector growth.

I think all people testifying today have mentioned how important small businesses are in terms of growth and employment. Several studies have now suggested, that at least during the 1970's, two-thirds of all the new jobs created came from small businesses; that is, businesses with 20 or fewer employees.

So that is a major concern for us, and I think a perspective on the deficit that we have to really worry seriously about. I think you are exactly right in attacking the spending side.

GROWTH IN SPENDING

When Mr. Reagan was first in office, we got ourselves the correct attack on the revenue side. That is one way to get Congress is to tie its hands on the revenue side. We did that. Congress simply would not give them the spending cuts that we needed to go along with it, and now we are in serious trouble, and we are going to have to deal with it.

The reason we are concerned about the growth in spending is, we do not think we are getting our money's worth at the margin. We are not asking for no Government, but we think we have gone way too far, and those resources would be better off, reallocated back to the private sector, where we can get real job growth, not just transfers of money from taxpayers to people who will be working for the Government.

GOOD MEASURE OF TAXES

On the tax side, if you want a good measure of taxes, look at total spending, because total spending tells you how much, in dollar terms, of resources are being transferred from the public to the private sector.

We have three ways to finance that. Explicit taxes like income taxes and profit taxes. Then we have borrowing which, in the absence of supporting monetary policy, leads to high interest rates and crowds out private sector spending on housing and investment. And then, of course, we have got the old way to finance Government spending, which is to print money, which we did during the 1960's and early 1970's, which led to inflation, and that is the worst tax of all. You know, a fellow who invested, say, $1,000 dollars in a Treasury bill in 1960, investing in his future and America's future, now has $370. Certainly, that represents an unfortunate dissolution of his wealth and his savings, and also suggests how we abrogated the Federal debt. We defaulted on it, and I think we would like to see that not happen in the future. If you complain about high interest rates, if you think they are too high, if you think the dollar is too high, what you are really saying is that something is wrong here in the United States in terms of the balance of fiscal and monetary policy.

Markets set interest rates correctly. They set the value of the dollar correctly, given what we are doing, but what we are doing is wrong, and it is out of whack, and I think we have to deal with it very quickly, and we do not have a lot of time to wait around.

CURB SPENDING

More explicit taxes. We talk about raising taxes. Is that a good idea? I do not think so. I think, again, the points have been well made. We are concerned about growth here, and about curbing the allocation of resources to Government, so what we need is not more taxes, in any form—borrowing, inflation, or explicit taxes—but rather, a curbing of spending. Where can we do that? We have got lots of places to go.

Some of them have been suggested, and I guess I will just throw up a few more that we are going to be talking about in the next few months.

First of all, the Grace Commission told us how to do it better, at least, even if we do not eliminate some things, and we always want to do that. We have a farm bill, have passed farm policies which have created major problems for our farm's, made us uncompetitive, especially with a strong dollar, and really needs to be overhauled. In 1983, half of farm income came from subsidies. We have got to stop that. We have got Medicare, defense, Social Security, and interest on the debt. That is 80 percent of total spending. None of those can be protected. We have got to go after all of those.

So those are the things we have to attack. A freeze is a great idea for starters. The problem with the freeze is that it is going to keep the President and Congress from restructuring spending in a way that the voters presumably told us to get it done.

But still, a first cut would at least freeze spending, and then we can argue later about how to restructure that pool of money that we want to spend, in ways which are consistent with the objectives, and the views of the people who voted for our representatives and our President. Thank you very much.

Senator **QUAYLE**. Thank you very much, Mr. Dunkelberg.

[The prepared statement of Mr. Dunkelberg follows:]

DEALING WITH THE DEFICIT

William C. Dunkelberg

Purdue University

In 1980, the federal debt stood at about one trillion dollars. Very shortly, we will reach two trillion, doubling in a few short years the cumulative debt accrued in our entire history up to 1980. Government spending has soared, reaching a level equal to over one-third of our Gross National Product. This growth must be curtailed and the share of our resources devoted to public expenditures reduced and stabilized. Each of us will have our own special project that we feel should be exempt from such cutting. But in totoal, honoring such views produces the fiscal problem we have today. Everyone would benefit from deficit reduction, with lower interest rates, more private spending on housing and investment, and a reduced threat of inflation in the future. Thus, it seems that our first objective should be to reduce overall spending, and then to restructure that spending to reflect the wishes of the people who pay the taxes to support it.

Our effort to reduce the deficit should appropriately focus on spending. The growth in spending [in dollar terms and as a percent of GNP] must be controled. Our objective should be to reduce the share of GNP allocated to the government sector and to federal spending in particular. It is not clear why, for example, we pay billions in taxes to the federal government so that Congress can debate over which cities or state projects should receive money. Why this "middle man"? Are states not more capable of and indeed more responsible for the determination of such outlays? There should be no "pie" for the states to spend time and resources trying to capture. Each is trying to get a larger share that they contributed, and people in Washington, not the states, are making spending decisions.

The decisions will not be easy. Over 80% of federal spending is encompased in four categories: [1] interest on the debt; [2] defense; [3] health; and [4] Social Security. There is little we can do directly about interest on the debt. Reduction here awaits sound action on the deficit. A good deficit reduciton package that people can believe in will lower long-term interest rates by at least one or two percentage points, cutting interest costs by tens of billions of dollars. Defense spending is difficult to evaluate. It is very hard to determine how much "defense" we need. It is a job that we have delegated to Congress and the President. I will simply observe that, as a percent of GNP, our defense spending is currently quite low in the context of the past thirty years. Health care expenditures currently constitute over 10% of GNP. Our various "insurance" programs encourage mis-use of the system. A restructuring of government's role in providing medical care could dramatically reduce spending without seriously compromising the protection we wish to make available.

Social Security has also grown rapidly and will continue to do so. For a large fraction of U.S. families, it is the biggest tax paid, exceeding income taxes for a family of four until family income exceeds approximately $25,000 per year. The program is not what we promised or envisioned. It is now simply a transfer program with rising tax commitments in the future. Although the program does simply transfer money from one citizen to another, the funds needed to make the transfer must be raised by taxes or borrowing, activities that deter economic growth and distort incentives. If Social Security is a true "pension" program, it must not be funded on tax liabilities for future workers. If it is to remain what it is now - just another transfer program, then we must more carefully evaluate which citizens are to receive benefits, and how much tax revenue is really needed to fund those commitments.

Dependence on government spending has, in my personal opinion, been destructive to our incentive structure. Families rely more heavily on government to take care of their parents [our elderly], educate their children, and provide for retirement and health care. We save less for these important objectives and since we don't pay taxes to "fund" these liabilities, we relay on the willingness of current and future taxpayers to make all of this happen. We want to help the "poor", but don't want to pay taxes to fund it. This "collective hypocrisy" has left us with nearly two trillion dollars in federal debt [doubled since 1980]. The only way to get people to hold all of that debt is to continually pay high interest rates to induce them not to "cash in" and spend the money on something else. We have, in short, a major "digestion" problem on our hands, one which will only get worse if we don't curb deficits now.

A spending "FREEZE" may represent a politically expedient way to move toward deficit reduction, but it has the disadvantage of locking in expenditures that should be reduced or eliminated, and preventing increases in other types of spending that voters wish to see increased. It would be preferable to reshape the budget in ways which reflect the preferences of the American public as expressed through our elective process. However, the make-up of Congress does not reflect that voting [although each part received about 50% of the total vote for Congressional candidates, the House is heavily Democratic], making it more difficult to negotiate the needed spending cuts and shifts in priorities. If a "freeze" is the only way to get concerted action, then we should take it quickly, leaving the issue of restructuring total spending until later.

There should be no debate over whether or not to have a tax increase. The true measure of the **TAX BURDEN** is total government spending, since that represents the claim to resources transfered from the private sector. The only discussion should be over the form of tax collection. Currently, most revenue is raised from explicit taxes on incomes and profit. The remainder is raised through borrowing, which puts upward pressure on interest rates and crowds out private expenditures on homes and capital outlays, and through a modest inflation, that erodes part of our purchasing power.

In the past, money creation ["easy monetary policy"] and the resulting inflation has been a major source of "tax revenue". Rather than tax income explicitly, the government has monetized its borrowing [sold it to the Federal Reserve in exchange for "new" money], creating severe inflation. This inflation "taxes" income in obvious ways - each dollar buys less in real terms. But it also taxes wealth. A citizen who invested in his future and America's future in 1960 by purchasing a $1000 U.S. Government Bond [or any such asset] now has $370 worth of purchasing power. This, by the way, represents a massive default on the national debt. Someone who retired in 1970 with enough savings to see them through retirement years found that by 1978, half of the wealth saved had been taxed away by inflation [the price level had doubled]. Fifty to sixty years of hard work and saving had been wiped out by a stroke of the government pen.

If we must continue to spend in excess of our current revenue, then we should at least make explicit the taxes needed to finance the spending, and not rely on inflation or high borrowing costs [which impairs capital formation in the long run] to transfer resources to the public sector. We should work toward finding the least damaging way to raise the revenue we need to finance our spending committments.

In summary, we must impose real and immediate restraints on government spending in order to reduce the deficit and the accumulation of federal debt. Within those constraints, Congress must decide what our priorities are, and reallocate the budget to meet those objectives. Should additional revenues be needed to bring the budget into reasonable balance, this should be accomplished through meaningful tax reform that minimizes the disincentive effects of the tax code and reduces the cost of compliance.

FREEZE AGGREGATE AMOUNT OF SPENDING

Senator **Quayle**. I think I might just pick up there on this freeze aspect. It would seem to me, and maybe you could concur, that what we ought to freeze is the aggregate amount of spending, and what we spent last year we will spend this year. The President is talking about freezing at the $973 billion mark, and that is where he thinks expenditures are going to be as we finish this current fiscal year. And so therefore, when the fiscal year 1985 ends in September 1985, that we ought to spend the same amount, which the best guesstimate, right now, is $973 billion.

There is a strong agreement—I do not think I am going to have too many panels like this, the rest of this week, that basically agrees with the philosophical approach, that I think is necessary, that we have got to really hold the line on spending. I think they will say, "Yeah, we have to hold the line on spending, but we are going to get in to all sorts of if's, and's, or but's," and I did not hear too many of those if's, and's, or but's from this group. So therefore, I am just going to put you on record as supporting me on spending cuts, but I am just going to take the luxury, since I have you all here, to switch to taxes.

And taxes is always an interesting subject. A couple of you pointed out the possibility of it really being counterproductive, if we go down and just start to raise taxes to close the deficit. I certainly agree with that. But as you look at this thing down the road, and as we march, and try to get the spending restraint and spending cuts, I'll be there voting along with, hopefully, a majority to get this, the spending cuts first, primary and foremost. I think that that is the most important thing that we can do.

TAX SIMPLIFICATION

But as you look down the road, whether it is this year, later on, or next year, the tax simplification that the President is pushing is going to hit some of your constituency out there, particularly on the business side of the ledger. Can you just give me a thumbnail summary of whether there is strong support for the idea of tax simplification? I think, in the long run, from my viewpoint, it is probably going to generate additional revenues to the Government, because you are going to broaden that tax base, you are going to do away with some of the shelters, you are going to lower marginal tax rates. I think as you have lower marginal tax rates, and have that competition and incentives out there, that you ultimately are going to produce more revenues. But I wonder if you might just briefly speak for your constituency, if you can, and if there is some strong support out there for the idea of tax simplification in the way that the administration indicates it wants to move.

Mr. Styring, let us start with you.

Mr. **Styring**. Senator, three quick points. One of them, unfortunately, is on your prior point, the idea of a freeze, if I might. Indiana has been incorrectly, in my judgment, accused of being 10 years behind the times in many, many ways. I would point out that State government in Indiana has lived since 1963 with one of the purest forms of a flat personal income tax that it is possible to devise.

One rate, a very broad base, almost no credits, almost no deductions beyond personal exemptions, and it has worked very well. To the extent that we have been able to take public opinion polls, there is very, very little dissatisfaction on the part of the taxpaying public in Indiana with that type of approach.

KEEP ACRS

Second, my boss asked me today, "What if Dan Quayle pins you down and says, 'OK. If the Indiana business community has to give up ACRS, or the investment tax credit?', what are you going to tell him?"

Senator **Quayle**. Well?

Mr. **Styring**. Well, I can tell you that you would have some business firms on both sides of the question. You already know that. But it is my belief, from a large number of conversations with a large number of companies, over a fair number of years, that if really pushed to the wall—of course, the real answer to that would be "neither of the above"—but if really pushed to the wall, I think most, or at least a majority would say, "Keep ACRS. Do away with the ITC." Finally, very, very quickly on the idea of a budget freeze.

I have suffered through, unfortunately, a number of sessions of the Indiana General Assembly, some of them fairly recently, when the fiscal situation was very tight, and although we did not have, quote, "a budget freeze," there was certainly a good deal of spending restraint.

What happens, and the danger one runs in to when one does that, yes, you can get a rein on spending temporarily, but the political infrastructure continues to demand catch-up increases in the future is still there. I believe it is possible to make a case, that if you really want to impact that spending line in the longer term, it is almost better to get rid of whole programs, even though the dollar savings in the very short run may be less, than to squeeze everything and leave everybody in a tummy rumble about, "I've got to get it back later."

PUT EVERYTHING ON THE TABLE

Senator **Quayle**. If you were President for a day, and you could eliminate programs, if you got the Congress to go along, do you have a list?

Mr. **Styring**. I think Phil Duke had it about right. I think everything is on the table. You know, one can throw rocks at about almost every Federal program. I would agree with Mayor Hudnut on one thing because I know his budget, and, when he says that revenue sharing is the most important thing to him, I know he is serious, because that is the glue that holds the city of Indianapolis' budget together. At the risk of having some members yell at me, I can make no case for Amtrak. At the risk of having some of my friends in the Farm Bureau very mad at me, I can make no case at all for a number of the subsidy programs we have, and certainly, no case at the level we have for others.

You know, the list can go on, and on, and on.

Senator **Quayle**. OK. Mr. Dunkelberg, do you want to take a crack at tax simplication? I understand from Mr. Styring that there is support, that business would like to have some consideration on ACRS, which can be understandable, but generally, the principle they are prepared to move. I think we ought to ask everybody this. If we have any lists of programs that ought to be eliminated, that would be very helpful, indeed!

Mr. **Dunkelberg**. Programs to eliminate make me go all the way.

Senator **Quayle**. Just to eliminate, yes. The President has shown his cards. Let us see if there is any consensus that might be developed throughout this week, and if there are any programs that might be eliminated.

FREEZE DOES NOT ALLOW FOR ADJUSTMENT

Mr. **Dunkelberg**. I think the point about the freeze is one which I would like to have made in more detail, so I am glad you raised it. The problem with the freeze, as I said is, it does not allow us to readjust the budget according to, you know, the priorities that we think are right, and that is the difficulty, and that includes keeping programs we should not have.

Exactly which ones to get rid of, that becomes a little more difficult. I, for one, am not real excited about any kind of revenue sharing with the States. It has always bothered me that we all pay money to Washington, and that people in Washington sit around trying to figure out where that money ought to go. You know, there are only two of them in the Senate, and a few, and a varying number in the House, know what is even going on in the particular state that we are considering. I mean, why do we have to have this kind of a middleman? We have too many middlemen in Washington. On the poverty programs we have the same thing. I think if you look at the total amount of money allocated to poverty programs, and you just kind of divide it by the number of poor people, say, the lowest 10 percent of the income distribution, it works out to 30,000 per capita. But somehow or another, in between, we have gotten one of the poorest run charities going, and we have some difficulties there.

I would like to see that. I do not want to eliminate programs. I want to eliminate some overhead out of that program. Farming. I do not want to eliminate all the farm programs, but if you have got an area where, "Gee whiz, we have got the best competitors in the world, and the most productive," that is the place where it is, and, you know, if you make me choose, either have the kind of program we have got now, or no program at all for farming, I will take none, because those people will do very well.

On the Medicare side, over 10 percent of GNP now is in health care expenditures, and a big chunk of that comes from the Government, very badly structured, but I would not eliminate it. So I guess I would really restructure. I think we can get the kind of protection we want, to the people we want, for a lot less money, if we just structure that program differently.

So those are some of the things, I guess, that I would look very hard at.

RETAINING TAX INDEXING

Senator **Quayle**. Mr. Duke, let me ask a different question of you. You talked about retaining tax indexing as being important. How critical do you feel the retention of tax indexing is? The reason I asked that question is, we get going down this road, and particularly with the divided Congress the Republicans controlling the Senate and the Democrats controlling the House—to get something through, as Bill Hudnut referred to, a bill is going to have to be somewhat bipartisan. All of a sudden, when you start talking about bipartisan, I know what some of the bargaining chips are going to be.

One of the bargaining chips already being talked about, as we talk about this freeze, is that we should freeze tax cuts as well—future tax cuts. Well, the main principle of the future tax cut is tax indexing. That is probably going to again raise its head as being a bargaining chip, as we get in to trying to put together this budget reduction package, particularly if the Republicans would pass a budget in the Senate, and the Democrats pass one in the House. You still have to get it past the Conference Committee and send it on down to the President.

The President has taken the adamant position, as he should at this stage in the game: No taxes, period, and particularly, keep tax indexing. How critical is the retention of tax indexing, from an economic point of view?

Mr. **Duke**. I agree with the opening remarks of one of the other gentlemen in saying that we did the right thing when we instituted the tax cut at the beginning of the Reagan administration. You take away the money, and then the Congress is forced to deal with how to cut down on the spending.

So I think, from that standpoint, that it is so essential.

REVENUE BILL WOULD BE COUNTERPRODUCTIVE

Senator **Quayle**. What you are saying to me—and I have heard this before—is that if in fact the Congress would give up on spending cuts, and just sort of resort back to revenues. A revenue bill would probably pass the Congress with very, very little debate, and in my opinion it would be counterproductive. I would not vote for it, just to have a revenue bill.

But what you are saying is a fear that I have expressed to me a lot of times, that if in fact you do not do the spending cuts, and you just pass the revenue increase bill, then we will get back to the same old habits, and go ahead and spend that revenue, that additional revenue that is going to be coming in.

Mr. **Duke**. Of course.

Senator **Quayle**. Is that not a fear, that you are really saying——

Mr. **Duke**. That has been our history.

Senator **Quayle**. Yes. It has been in our history. I will share with you what has happened in the last 2 days of hearings in the Senate Budget Committee.

There were two outside witnesses that are fairly well respected in the economic community, one, Paul Volcker, Chairman of the Federal Reserve, and the other, Dr. Rudy Penner who is the head of the Congressional Budget Office, independent of Congress and independent of the administration as well.

During those hearings, I asked one question of both of them. I said:

> If you had your choice for economic growth—in other words, if your only goal was to see this economy continue to grow, and to continue to prosper, and see jobs in the private sector, which we want to see—which would you choose as far as spending reduction or tax increases"?

And both of them said very frankly, and candidly, "If that's the goal, economic growth, then your only choice is spending cuts and spending restraint." And that is what I hear this group saying here today.

Looking at the revenues, as we have marched down this road, you get in to start this bargaining position, so at some time we are going to be talking about consumption tax. I suppose the most obvious one is an energy tax of sorts.

So, what would that do? Does anyone want to respond to any of the other questions that have come up here?

AVOID TAX INCREASE

Mr. KUHLMAN. Well, first of all, I do not believe in any tax increase, if it can be avoided. I am not sure it can be avoided, which is why I mentioned it in my remarks earlier, even though that had not been included in the paper which I gave you.

But I think that if there is any change in tax legislation, it should not discourage capital spending because I believe that is the basis for economic growth. Therefore, the alternative to that is some form of tax on consumption, a value-added tax, or a sales tax, and I do not like either one of them. But if we are going to have to do it, that is the approach that I would use.

Senator QUAYLE. Mr. Dunkelberg.

Mr. DUNKELBERG. Let me make a couple of quick comments. First of all, we talk about closing loopholes, and all these kinds of things as not tax increases. They are tax increases. Any way you want to cut it, if you pull out another dollar, it is another dollar that the private sector does not have. It may be a rich person or a poor person, I do not know, but, you know, it is a tax increase. And it turns out that if you close all the loopholes, say, by confiscating every dollar that everybody makes, say, that has $100,000 in gross income, or more, you are still only going to get about $30 billion, which leaves you a bit short, and suggests that there is no way you run the Government on the back of the rich since we are spending $900 billion in total.

SIMPLIFY TAX COLLECTING

So we should not fool ourselves about base-broadening, so it is not being a tax increase. They are all tax increases, if in fact total revenue goes up by another dollar. Now what simplification means though, is let us try to collect taxes more efficiently. That may be a good idea. Lower marginal rates give us more incentive to work more because we get to keep more out of every extra dollar. Things like that could be a good idea, so that we still might be able to save time in doing our taxes, save sources, spend less at IRS to collect them, and we could come out ahead that way.

So I think we ought to keep that in mind, when we talk about how we are going to change the tax code. On the energy taxes, a lot of people think that is a kind of an interesting idea. For example, let us put the tax on now, which essentially will capture for the Government every decline in oil prices from the current market price of gasoline. So people are accustomed to this, we are doing good things now because we are driving smaller cars, we are conserving, and now why let that thing slip all the way down, if it is going to go down further, which I think it will? I think real oil prices will continue to deteriorate for the next year or two anyway.

That would be a quick and easy source of revenue, but again, it is a tax increase. It is money that you and I will not have to spend somewhere else, and create jobs somewhere else. So let us not kid ourselves. It is a drain on the economy. It is an issue of just, you know, where is the best place to pick it up? And that may be, at this point, a quick way to do it, and not too painful, but I still like your focus on spending.

Senator **Quayle**. Does anybody else have any parting shots before we go on? If not, thank you all very much.

The next panel will be Mr. John Hart, Mr. William Grossman, and Mr. William Frey.

After this panel, we will take about a 15-minute break, and then resume with the other three panels, which will probably begin about 1:30.

Mr. Hart, executive director of Indiana Housing and Finance Authority, welcome. It is good to see you again.

STATEMENT OF JOHN C. HART, EXECUTIVE DIRECTOR, INDIANA HOUSING AND FINANCE AUTHORITY

Mr. **Hart**. I appreciate your coming here, Senator Quayle, and I will try to be brief. I have been past president of the National Association of Homebuilders, and also was involved as the author and sponsor of the restructuring of taxes in Indiana in the early 1970's. I have also had experience as chairman of Fannie Mae's advisory board, and I have been a head of the State Budget Committee, and if I have any expertise, I would say it would be in housing, finance, budget analysis, and taxation. I appreciate the opportunity to be here.

LARGE DEFICIT FORCES TIGHT MONEY POLICY

Speaking to the deficit, the large budget deficit has forced the Fed to use a tight money policy. The end result is, we are not competitive in world trade. We have deficits of over $100 billion annually in world trade. In fact we have become a debtor nation, financing each year of a new deficit in the range of $150 to $200 billion, at 10-percent minimum rate, actually eats up any growth factor in our economy. So we cannot grow out of it as long as we continue with these deficits. Twenty-eight percent of our spending is being borrowed, and much of that from foreigners. The only out that I see is across-the-board freeze for at least 3 years, and possibly 4. I would like to give the President 1 year in office with the freeze off, to make some amends. I think the defense budget should be in a freeze, the same as everything else.

The recent comments by "Cap" Weinberger, that you are not going to get a 100 cent dollars if you lower the military budget because the contractors make a profit and pay a tax, could be used for every facet of the budget. Anybody that wanted to argue that point could argue the same point.

I am very surprised that he would even bring it up. Entitlement programs have to be touched, and it is my personal opinion, as I near 65, that Social Security recipients; and anyone else who fears future inflation and the bankruptcy of the system, would take a moratorium on any increases as long as they knew that the funds they are getting now would be there in the next 3 years.

KEMP-KASTEN BILL PREFERRED

I believe it is time to simplify the tax system, and the time is right now. I prefer the Kemp-Kasten bill because the 25-percent rate would carry on through the capital gains. It would not affect capital gains rates at all, and the 25 percent, in my opinon, will begin to make other investments such as tax-exempt instruments worth less. It will make taxable securities out there worth more. Today, we have 64 percent of families that own their own home, but in Indiana that is 74 percent. We are not an urban area in nature. We do not have a lot of apartments, as it relates to other States. I believe the deductibility of the home interest should be for your primary residence, not a second home, a condominium away from home. I think your property taxes should be deducted on your prime residence, not on other homes.

We are in a problem out here today with the possibility of the threatened shutdown of FHA, the reducing of the influence in the marketplace of Fannie Mae, Ginnie Mae, and Freddie Mac. They absolutely must be maintained until there is a replacement in the marketplace.

Our lenders today are borrowing short and lending long. They cannot afford to take home mortgages, or industry expansion, or any long-term loans and keep them in their portfolio.

That was the reason we developed secondary markets. They must remain, they must continue to grow, and they must continue to take the paper from the local areas, where the local areas then can recycle their funds back on a shorter term basis for whatever is needed back in the local community. We are in some trouble today on 95-percent loans. It has not been mentioned very much but the fact that we have reduced inflation to such a low level, we are living with an all new sets of rules—about 70 percent of the loans are 95-percent loans.

What is happening is, if someone gets in trouble financially, or has a marriage go bad, or anything, and they look up and try to figure out how much equity they have got in the property, and by the time you resell it at about 10-percent cost, there is no equity there so they are walking away.

The foreclosures are higher in what are supposedly good times today than they have been in many years, and all of our private mortgage insurers are in trouble up to their neck from these 95-

percent loans going bad, along with their variable rate mortgages, which in my opinion, are even worse than a 95-percent loan.

TAX-EXEMPT BONDS SERVE PURPOSE

As to the tax-exempt bonds, I think that tax-exempt bonds serve a purpose. In Indiana they provide mortgages 3 percent below the market to the public, and every 1 percent we lower the rate, we get 8 percent more eligible buyers. So we pick up 24 percent of the market every time we go to the bond market, that cannot qualify in the real marketplace. But my conservative nature comes back to tell me that I would even go for a phaseout of bonds, providing that we started at a 12½-percent level, which is evidently the crucial level as to whether somebody wants to pay a market rate, or wants a below-market rate, and use 12½ as a factor, and then use it as a triggering mechanism.

And as soon as Reagan, and our country can promise people 10-percent mortgage rates, then I think our bond program should drop by 50 percent. So we would start out with per capita limitations on industrial and commercial bonds, and housing bonds, and drop those as the Government's economic program begins to work.

If interest rates are 12½, or above, these programs are going to—the bond market is going to be proliferation by people wanting to get in to it because the other market does not work.

And the only way it will work is if Government brings the rates down so if we do come up with a deficit reduction program, possibly a surtax on income, and we begin to see the rates come down, if Volcker will loosen up the money supply and let rates come down, then we will get away from proliferation of the bond markets, and everything will begin to look good. I feel that on the ACRS, that we could do some triggering. We seem to go to extremes. We have companies, and commercial properties in this country, that with 12- and 15-percent inflation rates, were being asked to take 2½ percent a year in depreciation. Naturally, none of the companies, or these businesses, were able to put aside any reserve funds. They were paying it all out in taxes, if they made a gain, and they were not able then to buy the new equipment or the new plants, or build new apartments because there was not any funds set aside for replacement, that matched the rate of inflation.

So, probably what we ought to do with ACRS is tie it to a triggering mechanism, and give us a 15-year writeoff, if inflation is 10 percent above, and drop it to a 20-year writeoff if we keep inflation down to 5 percent.

Let us put the burden back on Government, and build some formulas in here, that if Government in Washington does their job, then the Government back here, and the people back here in the private sector will benefit from it.

ARBITRAGE PROBLEM ON BONDS

I do want to mention an arbitrage problem that we have on our bonds. All of a sudden, they turned housing back to the States, and we do not mind that. In fact we can do a better job with housing back here at the State than you do with it in Washington. But we need the same tools, the bonds. The first thing the Treasury did was lower our arbitrage 112½ basis points, and that made the program to where we have to make contributions, locally, in order to make a bond issue work.

If they had left the limitation at 150 basis points, we could have let the users of the program that are getting rates 3 percent below the market, pay that extra 37½ basis points, and in 10 years, I could tell you to take half your bonding authority away. I could fund out of that fund of 37½ basis points.

I do not hardly understand why the Government wants to give us something, and then take it away, and make us totally dependent upon it, because on the basis they are doing it now, as housing costs go up, instead of reducing the entry in to the bond market, we are going to come back for more all the time. That is the end of my remarks.

Senator QUAYLE. Thank you very much, Mr. Hart.

[The prepared statement of Mr. Hart follows:]

PREPARED STATEMENT OF JOHN C. HART

My name is John C. Hart. I am the executive director of the Indiana Housing Finance Authority. In 1976 I was president of the National Association of Home Builders. I have served in the Indiana Legislature and in that role I was chairmen of Indiana House Ways and Means Committee. In the early 1970's I authored a restructure of the entire tax system in the state of Indiana. If I have any basic expertise, it would be in the field of housing, housing finance, government finance, taxation and budgetary analysis. My remarks will primarily concern the following subject matter. First, I would like to talk about the deficit, the budget and my opinions on how we should approach the problem of solving the massive deficit. Secondly, I would like to discuss housing and its related subsidies, support subsidies that our industry could continue to depend upon and candidly admit supports that we should be willing to forego in the future. Last, but not least, we should talk about the situation of the farmer. It is my opinion that we need some federal loan assistance in order to protect the farmer from massive foreclosures that are on the horizon.

The Budget Deficit. Time for non-partisan action is running short. Annual deficits continue at a rate of one hundred to two hundred billion dollars. World Trade deficits of over a hundred billion dollars annually. The result is a federal reserve board judgement to lean toward a tight money policy (high rates) in order to control inflation. The end result is that we have created a very volatile economic climate. The financing of each year's new deficits at an additional minimum cost of 10% annually is eroding the possibility of our ever reaching a balanced budget through economic growth. Continued annual deficits of this magnitude are making it impossible for us to gain any momentum toward balancing of the budget. I would support a cross the board freeze including the defense budget and including all the entitlement programs. Members of Congress are naive if they don't believe that even Social Security recipients would agree. A balanced budget will pull the underpinnings out of any future inflation. To exempt any portion of the federal budget from this philosophy of no growth or freeze would be to tear any coalition program apart. Mr. Weinberger's statement the other day that even if you took thirty billion out of the federal defense budget, it wouldn't all end up in net revenues to the federal government because the contractors were making profits and were paying taxes on their contracts is ridiculous. This argument naturally could be made on every facit of the federal budget. The real facts are that we are spending approximately 30% more than we are taking in. There are only three ways of correcting the problem. You absolutely freeze the maximum level of spending for the next three years which would allow our economic growth to cut into the deficit. You can raise new taxes by either a permanent or so called temporary surtax in an amount equal to the current projected deficit. Or you can accomodate the deficits by an easier monetary policy which will allow room for the financing of the current deficits along with the expanding economy. Interest rates would stay at a level that would encourage a strong economic growth. I happen to personally believe that it is going to take a combination of restraint in controlling budgets with a no growth philosophy over the next three or four years. It's going to require a re-simplifying of our tax system, both for corporations and individuals. It's going to have to mean that many loop holes that are presently in our tax system are going to have to go. I believe the federal reserve board, as a result of a bi-partisan effort by Congress and the administration to put into effect this type of program would then allow a monetary growth policy that would accomodate the true economic needs of this country.

Housing. Sixty-four percent of the families of this country own their own home. In the state of Indiana, this percentage is much higher, it's very near the 74% level. Over 50% of the homeowners require at least two persons in their family as wage earners to be able to reach the affordability level to purchase today's housing at current interest rates. I will attempt to list some of the so called housing subsidies that have come about over a period of years in order to meet the nation's high priority on housing, which was to build decent affordable housing for all Americans. I think that the most sacred tax subsidy that would be very difficult to erase from our society today is the deductability of interest on the home mortgage. I don't think that there should be any maximum limit on the interest allowable to be deducted and I think local real estate taxes should be deductable as well. I depart from some of my colleagues in the area of interest deductability on your prime residence as compared to interest deductabilty on a second home. I reluctantly would have to say that I would be willing to give up the interest deductability on a second home if it meant that we could have a balanced budget. I think that we should do everything that we can to keep the FHA "underwriting and insurance" in effect on both single and multi-family housing. (Fees-premiums make it self-supporting.) In the state of Indiana, we will not be able to use tax exempt bonds for financing multi-family units unless the underwriting standards and the insurance risks are taken by FHA. Let me restate, Indiana would not underwrite or finance with tax exempt bonds any apartment units that are not federally insured and underwritten. Today only a very small portion of the for-sale housing is financed with FHA and VA insurance, they however have been good programs over the years, kept the market competitive and allowed many families to become home buyers through the federally insured programs. I think that Freddy-Mac, FNMA and GNMA secondary markets ought to be preserved. We have completely de-regulated our financial institutions, competition is going to be strong, it's going to be very difficult for any size financial institution which borrows short-to-hold funds in a permanent portfolio of long-term single family or multi-family mortgages. There is a need for a secondary market to purchase these mortgages from the originators which are mortgage bankers, S & L's and commercial banks so these institutions can re-cycle their funds on short terms back into the economy for other growth. There are various types of mortgage backed securities, collateralized mortgage obiligations and builder's bonds which have penetrated the money market by offering a security backed by mortgages very similar to the way that GNMA, FNMA and Freddy-Mac are currently entering the secondary markets and it would be silly to not continue to enable these types of mortgages to reach the money markets in the form of marketable securities. I strongly support passage of the Kemp-Kasten tax simplification bill. However, I believe that local governments and state governments still should be allowed to issue tax exempt bond for commerical, industrial, residential, and multi-family purposes. There should be some limitation placed on tax exempt bonds, possibly on a per-capita population basis. There are bond issues such as those required for clean air, clean water that should be exempt from any statutary limit. If Congress is serious in its intent to move to a more flat rate of taxation, tax exempt bonds will naturally be less attractive to an investor. The higher the corporate and individual tax rates, the greater pressure on the bond market. As these rates are lowered, such as in the proposed Kemp-Kasten bill, there will be less advantage or need to issue tax exempt paper. Let me be more specific on tax exempt bonds as they relate to our single family and multi-family housing programs. Our state legislature set a 125% limit on the maximum family income as it relates to the median income to be eligible to participate in our program. Forty percent of our loans have to go to families with 80% or less of median income. Since the beginning of the program we have exceeded the state requirement and over 50% of our buyers made less than 80% of median income. You can purchase either existing or a new home in our program and you would usually find that the current interest rate on our mortgages to be 250 to 300 basis points below the current fixed mortgage rate in the conventional market. Our average mortgage has been $40,000 and a 3% lower interest rate means that we are saving the buyer approximately $100 a month in payments, requiring from $3,600 to $4,000 less family income. We have been purchasing approximately 4,200 loans per year with our two-hundred million dollar yearly allocation. I personally feel that affordability is the only justifiable reason for using the tax code for housing. The use of single family bonds has created affordability in a moderate and low income program. I was extremely pleased when the federal government under President Reagan agreed to move housing responsibilities, thus subsidies, back to the states. I truly feel the state of Indiana gets a better buy and we can have a better program because we know what the problems are at the local and state government levels. There has been some short-sightedness in the government's oversight of the single family bond program. For example, the federal treasury has limited the maximum arbitrage to 112½ basis points. Originally this arbitrage allowance was 150 basis points. A program with 150 basis points allows the states or local housing authorities to build positive cash flows which pyramid over a period of years into a substantial amount of funds. The additional 37½ points of arbitrage would be paid for by the users of the program and it would allow agencies to build a trust fund for the states or local governments to use for recylcing in the future programs without going back to the bond market. Short-sightedness - the treasury is trying to limit arbitrage to a point where many state agencies have to put up their own equity in order to make a program work. Obviously by using their own equity, these programs will never become self-sufficient and as housing costs rise annually the demands for more and more authority for bonds will be heard from all over the country. With a reasonable increase of 37½ basis points in the allowable arbitrage, the same authorities could become self-sufficient over the next 20 to 30 years and thus by recycling their own funds, housing bonds that they must issue in the tax exempt market could be drastically reduced. For example, I projected that if we were allowed a reasonable arbitrage, the state of Indiana could probably start out with their 200 million limit that they have today and they could have their cap reduced by 10 million annually so that at the end of 10 years they would have a limit of 100 million in the single family bond market. This would not impose any serious limitations on our authority as our positive cash flow would allow us to issue or purchase similar levels of mortgages annnually without going back to the bond market. The same situation could occur in the multi-family markets if the authorities were given maximum caps now of say 200 million annually and were given reasonable arbitrage limits of 150 basis points. Cash flows could progress to a point where they would become less dependent upon going to the market each year for subsequent bond issues. The current system of limiting the arbitrage to 112½ basis points tends to make the local issuing agency always dependent upon the federal government for rules and regulations and is totally opposite of Reagan's philosophy. There is presently a sunset on the bond programs in 1987. I truly believe that our bond program creates affordability in the marketplace. There is another alternative. A triggering mechanism could be developed on the allowable level of bonds to be issued by a state on an annual basis. Currently, the FHA rate is floating and is adjusted to market by the commissioner. Currently today, for example, the interest rate is 12½% with less than a 2 point fee required to adjust it to a fair market yield. Since the tax exempt bonds tend to provide mortgages to 250 to 300 basis points (250 below FHA) below the fixed market rate. If the FHA rate was 12½% we should be allowed to issue our maximum level of bonds annually. For every one-half percent or 50 basis points that the FHA drops, individual state bond limitations could be reduced by 10%. As an example, if you reach a 10% FHA rate, the normal amount of bonds the state agency could issue annually would be reduced by 50% of the current level. I think the same sort of triggering mechanism could be used for industrial bonds. My purpose for a triggering mechanism is to point out the fact that the only time the tax exempt bonds need to be used is to create affordability when the real market place is not working. The real market place for single family housing tends to work less favorably as interest rates push above the 12½% level. The same could be said on the industrial and commercial bond area. There aren't too many projects that become feasible with market rates that are above 12½%. Therefore, when rates are high there tends to be a strong move toward tax exempt issuances.

Now to get into the more controversial area of the tax code and its benefits to housing. I think that if we are all willing and the public certainly seems willing to accept a flat-tax (simplified tax) program then it's time for the so-called shelters to evaporate. I may be swimming upstream here against the sentiment of many people in my own industry. First I want to talk about ACR, accelerated cost recovery system. In this country we seem to go to extremes - first of all we make plants, commercial, apartments and various investments in real estate use 30 and 40 year depreciation schedules which are utterly ridiculous when you have double digit inflation. What happened was that companies could not adequately put aside funds to recapitalize or refinance improvements or to even keep their plants modern because the depreciation rate didn't take into consideration the replacement cost which was being doubled and tripled by inflation. Rightfully so President Reagan restructured the system, and put it in the accelerated recovery theory; this caused a great demand and growth in many real estate projects. But the facts are that inflation now is reduced from double digit to single digit and there could be some reasonable adjustment in the recovery system to compensate for the beneifts of the reduced inflation. I guess what I'm saying is that the 15 year recovery could move to 20 years and there could be a triggering mechanism that would allow the depreciation to go up by the rate inflation exceeds 5% a year. Some kind of combination inflation index as well as recovery system could be built into the depreciation table.

The greatest abuse of the use of depreciation or depletion allowances is the ability of a taxpayer to offset losses in one business against gains in another, or losses in a business against personal income. If I were tackling this problem, I would not attack it by trying to disallow the deduction of interest or to disallow or curtail a reasonable depreciation percentage. But instead, I would absolutely obliterate the ability for offsets. Large corporations have stock holders that should be able to take interest deductions, depreciation as allowable and report the net profits. I very strongly favor pass through dividends as a deduction from a corporation federal taxes. When it comes to limited partnerships or oil wells or silver mines or gold mines or any other form of depletion or allowances, these should be treated as individual business, and although the entity or partnership or whatever the type or nature, they should only be allowed to take those losses against outside income. There are some dangers that are eminent in a major revision of the tax code. Tax exempt issues will deflate in value while market rate securities will tend to increase in value because the yield will improve. Currently today in the market place there are a lot of office buildings, retail centers and apartments being built with basically no true cash return feasibility. As you are aware, most of the syndications are formulated with a two to three times return and in some cases, up to a five times return in tax deductions for every dollar investment in a given project on an annual basis. The entire feasibility thus is structured on tax-loss to equity investment ratios and not on the flow of the cash derived from the income of the property. Most office buildings, commercial structures and apartments secure 30 to 40% of their financing through these limited partnerships and there is no cash flow projected to investors over the first five-year period. Obviously, when you do away with the shelter, you do away with the ability to raise equity capital and then the projects are going to have to perform on the basis of true cash flow. It has been estimated by the National Association of Home Builders that without the equity put into the multi-family units by outside investors seeking tax shelters and only seeking future gains through cash flow or eventual residual value through resale, market rents could rise some 35%. If you understand the free market this just wouldn't be physically possible to have rents to go up that much in one year so this will occur over a period of time. But it will cause a serious question of feasibility for new projects and could tend to tighten the market place where it would be possible for those levels of rent increases to occur over a two or three-year period. Naturally this might bring some howling for rent control and those kind of things which would be totally adverse to a free market and shouldn't be allowed to occur. The only point that should be made to those who are thinking of revising the system is that there is a moral purpose to these subsidies which is keeping market rents below what they would be in the true market. There also will be a horrendous deflation in the market place and projects put up for resale or refinance will then have to reach the market on a formula as it relates to the true cash flow of that project. Since many, many projects on the market place don't have any cash flow to speak of, many of those projects could become delinquent, subject to foreclosure or absolutely worthless in the market. This could cause problems on local real estate taxes and local governments that depend heavily on real estate taxes. Another survey by the National Association of Home Builders shows that the lower income families that are renting and not in ownership in this country are paying 30 to 35% of their income to rent. If this is occuring with the rents that are not realistic because of tax advantages of building this type of real estate then you must come to the conclusion that some of these people are going to be forced into federal support levels if rent rises to any major degree because you cannot expect people to take much higher than 30% of their income for housing costs.

This also poses some potential problems on Section 8 where the government picks up all but 30% of the family income as it relates to their rental housing cost. I would like to speak a little bit to that particular point of the Section 8 subsidy. It is my personal opinion that a major scandal will evolve from the current Section 8 program. The rents from which subsidized portion of the rent paid by the federal government is much higher on a subsidized unit than it is in the real marketplace on the non-subsidized unit. It bears scrutiny and investigation immediately. There was originally to be a comparability study made annually when increases were given the landlords. Unless these comparability studies are made against non-subsidized units and are only made against subsidized units, there tends to be no check point in holding rents down. The facts are that the subsidized tenant is a very small deterrent of rent increases because they know that their maximum liability is 30% of their income regardless of what the market rent on their unit rises to. Therefore, a subsidized tenant in a Section 8 project has to look at his net rent cost as it relates to non-subsidized rents for similar type apartments. For example, even though a two-bedroom apartment might rent for $550 in a Section 8 project and $350 in a non-Section 8 project, that particular subsidized tenant may only be paying $150 in the subsidized project so they really don't have any problem with $550 rent. Yet they will not move to the cheaper rent of $350 becuase it is in a non-subsidized unit and their true cost will run up from $150 to $350. The whole formula is very exasperating and we in the building industry are in complete fear that when the government finally wakes up to what is happening to them, they will over-react. The end result will be the end of any sensible program in the future. The whole mess could be corrected if FHA would just make a study of comparable rents or subsidized and non-subsidized units in the area where they are providing a subsidy and adjust the fair market rent to somewhere between the two rent levels. The recommendation that future housing vouchers be limited to people who are 50% or less of median income will be even a further disaster such a program means that you are concentrating all the true poverty level families in subsidized units. It will tend to create the same kind of ghetto that we have in our public housing units and the same end results.

Through my very strong contacts with the members of the National Association of Home Builders, it is my personal opinion that our membership's number one priority is curing the deficit problem, balancing the budget, getting back to a free market controlled economy and reducing the tax code's ability to reallocate the resources of the country. Supporting all of these proposals that are based on a belief that a by-partisan approach in Congress along with the administration support will solve the above problems, that current interest rates would lower to a level that offers true affordability in the market place, market feasibility would once again be determined on the analysis of true supply and demand and not artificial inducements fostered by the tax code.

Senator QUAYLE. Mr. Grossman is president of Metropolitan Indianapolis Board of Realtors.

STATEMENT OF WILLIAM A. GROSSMAN, PRESIDENT, METROPOLITAN INDIANAPOLIS BOARD OF REALTORS

Mr. GROSSMAN. Thank you very much, Senator, for allowing me to participate in the hearings. My name is Bill Grossman. I am the 1985 president of the Metropolitan Indianapolis Board of Realtors, and my areas of expertise are twofold.

No. 1, I represent the State's largest local board of realtors as a trade association president, and second, my business background is more akin to the real estate investment side as opposed to marketing of single family homes.

But I do feel that I can address both subjects with knowledge, and welcome your ear, so to speak, in regard to these subjects.

CONCERN FOR HIGH INTEREST RATES

First of all, in broadly addressing the deficit reduction, and the need for some type of action, let me state the feeling of those of us who are selling and buying real estate, as a profession, are very concerned, and have been for a number of years about the abnormally high interest rates.

This is truly the measure by which investment, whether it be buying a home type of investment, or, investment as a part of one's portfolio of funds used to gather yields, has been adversely affected by the high levels of these mortgage rates. The makeup of the high rate itself, our studies show more than 50 percent is due to overcrowding of the marketplace, being many people searching for the same funds, and consequently, demanding a higher yield as that demand grows.

And second, and probably the biggest percentage of that over 50 percent, is due to people's fear of what is going to happen in the future. They know that inflation of some level will in fact be upon us, and just the fear, in and of itself, is causing many people to demand higher yields in a short-term run, which dries up the method of financing real estate assets.

We feel it is absolutely imperative that whatever deficit reduction actions are taken, and we do feel that they are necessary—be shared by all segments of the private sector. That is a very large request to make, I know, but as a group, we are willing to make some sacrifices so that we can in fact get the deficit down. That is our primary goal.

We need to foster more confidence in the long-term stability of the national economy. If we were to reduce the deficit, we are in fact, in my estimation, going to be looking at people making decisions on a longer term basis, and this brings stability to all the financial markets that are critical to real estate, whether it be buying a home, or investing in some other income producing type of property.

In addition, the deficit reduction would allow, in my estimation, increased savings and investment by a broader group of individual citizens. Homeowners, for example, tend to be better savers than people who are renting homes. Statistically, this is a fact.

In Indiana, I would surmise that there probably is even greater impact in that regard than maybe some other States. So we need to foster the growing confidence of the marketplace, and the people within that marketplace, that we are not going to be facing huge gyrations in the financial markets.

FREEZE HAS SUPPORT

If a freeze is necessary to accomplish deficit reduction, it is our feeling that we should look at it very seriously and support it. There may be a modified freeze, which could be possibly freezing cost-of-living adjustments to major program funding, possibly looking at a cap on annual increases within spending programs, and that type of thing. Whatever it takes in that regard, we are going to be supportive. We need to get the deficits down immediately, and it is our feeling that to do that, we will support whatever actions need to be taken.

Again, in looking at program freezes, or across-the-board spending freezes, I do think that it is only fair, that all segments of the public sector sacrifice, and take the burdens on as we improve the overall economy for all of our citizens.

In addition, whatever happens, I think care must be taken in the future to avoid this type of circumstance from happening again. We seem, in many cases, to fluctuate back and forth, depending on how things are going, and unfortunately that causes chaos, again somewhere down the road, and I feel that trying to stabilize investor confidence in what we are doing, the running of our Government, and the spending of our tax dollars, is critically important.

INVESTMENT MARKET IN CHAOS

In terms of tax reform, I can guarantee you that there is chaos in the investment market. No one knows what is going to happen, how it is going to happen, and when it is going to happen, and because of that chaos, there seems to be a dramatic lack of decision-making as to what to invest in, whether it be a single family home, or some other investment vehicle that is available to someone with some amount of dollars.

With that in mind, it is critical, that action be taken by you, as well as the other legislators, to tell us what is in fact going to make up the rules, so that we can properly analyze what is going to happen.

As an aside—and this is my own personal opinion—no matter whether it is selling homes, or selling investment estate, the marketplace, and the creators of product, or of marketing technique, for the good of the public can in fact create what is necessary to bring about investment, if we know the rules. But we have got to know the rules. And the inaction, and the massive bringing in of attitudes from so many different people does in fact need to come to a halt, and action be taken.

Again, all of my remarks are based on the fact that whatever does in fact happen must be shared equally by all segments of the private sector, so that none is penalized more than the other.

We all have our sacred programs, and of course we lobby and fight to get those retained. However, I think that overall, locally, we are willing to compromise as best possible, so that we can in fact move forward on in to the years to come, and would be most appreciative of having something in front of us, telling us what rules there are, that we can work under.

INCREASE IN INTEREST ON SELLER FINANCING NOT FAVORED

As far as specific recommendations, let me address one that has become a very key issue to those of us who are selling real estate, and it relates to the anticipated increase in the imputed interest rate for seller financing, which is due to take place in July, having been tabled, if you will, for 6 months. It is my feeling, as well as those members of my trade association, that we should not allow the increase to be enacted.

We would prefer to see it remain intact as it has been, even though at the present time, there are some fairly sizeable limits under which it is not operative, but we would want to see those present conditions extended.

It is unbelievable how often seller financing is necessary, no matter at what level of interest rates the marketplace is demanding. How that is used, either short or midterm, to finance real estate for another person to come in, in many cases, first time buyers, and, whereas they might not be able to fully qualify under the existing set of mortgage rate criteria, a seller who is interested in selling his home, or property, and a buyer who is willing to buy that property can in fact work out a transaction that is economically viable for both.

KEEP INCOME TAX FORMAT IN PLACE

It is our opinion, that the progressive income tax format could be kept in place. Our studies show that a flat rate tax, in and of itself, could very well discourage private savings and investment, and that is one of the key issues in the formation of our opinion. We want to see investment and savings grow. That is the method by which the cycle continues to run, bring dollars back in to the system for mortgages, or investment equity, whatever it may be, and we want to foster those two particular goals.

I would also be of the opinion, that we should not disturb the deduction for home mortgage interest and property tax. I agree with Mr. Hart that it should be on the principal residence as opposed to other types of residences. That has truly been historically, and will be in the future, a way that, again, potential buyers can in fact qualify for borrowing money in the mortgage market, when otherwise, they might not be able to qualify for that level of loan, should those not be available to them.

Last, I think that there is, in my estimation, a very positive action going on at the moment, and I am speaking about abusive tax shelters, and the cracking down, if you will, on those types of things, which I do believe impacts revenues from a tax standpoint. I am a marketer of good quality real estate investments, and there are many of my colleagues who believe in real estate income-producing properties as a method of creating wealth and creating cash-flows back in to the system, that must be maintained.

I, as an individual, am most happy to see the abusive tax shelters being cracked down upon, and would hope that that continues. There are a lot of us good people out there who are doing the right thing, selling the right product to those who can use it, who only get stronger and better because those in the marketplace that are taking advantage of the system, and the people, are being forced out of it.

So I commend all of Government in doing that and would hope to see that continue. I think that, in summary, my remarks are geared to continuing generation of savings and investment, that investment being in people, all structures, and home ownership.

So, thank you for your ear, and again, it is my pleasure to participate in the hearing.

Senator **Quayle**. Thank you very much, Mr. Grossman.

Mr. William Frey is president of Franklin Mortgage Corp. here in Indianapolis. Mr. Frey.

STATEMENT OF WILLIAM FREY, PRESIDENT, FRANKLIN MORTGAGE CORP., INDIANAPOLIS, IN

Mr. **Frey**. Thank you, Senator. It is a pleasure to be able to testify in front of you today, and we can certainly appreciate the problems of trying to balance a budget, and decrease a deficit that has been going on for several years, and try and make quick fixes. I know it is very difficult.

USER FEES ARE AN IMPOSITION

One item that, as a mortgage lender, that we are concerned about is the, as part of the new 1986 budget, is the imposition of the user fees being put on FHA, VA, Ginnie Mae, Fannie Mae, and Freddie Mac, as part of the secondary mortgage market. As you undoubtedly know, the FHA insurance fee would, under this program would be increased from 3.8 percent, where it is now, to 5 percent. And on a VA loan, it would be increased from the current 1 percent to 5 percent, which we feel is quite a heavy burden for the homebuyer to pay, either in cash, or in financing.

And of course with additional fees placed on the Ginnie Mae backed security, and as well as Fannie Mae—and I might interject here that basically, Fannie Mae, Freddie Mac, and Ginnie Mae are secondary market entities, that we would sell the primary loans, FHA and VA, in to, and these agencies create pools of mortgages, which, in turn, securities are issued off the pools, and then the investors, you or I, or whoever buys these securities, are guaranteed of their payments through a pass through type arrangement from the borrower to the lender to the security, and on to the purchaser.

So that this system has been working very well over the last 15 years, and we feel that with the imposition of these fees, it will not only increase the cost but could very well create a problem in the smooth operation of the entire primary and secondary mortgage market, as well as being able to provide economic housing and mortgage money to the first, and possibly second time homebuyer in the FHA or VA programs. I am not going to read my whole presentation because you already have, or will have a copy of it, but I thought I would just go through and pick out the highlights.

USER FEE CONCEPT IS NEW

But this user fee concept is something new, and certainly not one that we feel should be imposed. The FHA plan basically is self-sufficient now since they are collecting the fee up front, that they were not doing 2 years ago. The feeling that the additional increase on the VA from 1 percent to 5 percent, on the average mortgage in this State, would create an additional $2,000 of upfront moneys out of pocket for the veteran. Or if he financed it, increased his payments rather sizably. And I have a sheet tying it to the Indiana product as far as mortgage amounts are concerned, for your review.

As you probably know, currently, a veteran can go nothing down, as far as a down payment is concerned, and then have this current 1-percent fee payable at this time. Today, he can go nothing down to $110,000. If he makes an additional down payment, he can go as high as $135,000.

Now, of course, VA was originally an entitlement program and has been that way up until the introduction of this 1-percent fee. Well, it started as a half percent fee over a year ago, 2 years ago, and then August 17 of this past year was increased to 1 percent, and now they are indicating that they would like to go to 5 percent. As you know, Ginnie Mae, Fannie Mae, and Freddie Mac were all chartered by Congress, and are subject to the limits on their operations, that are imposed and reviewed by Congress, consistently, and their boards are staffed by Presidential appointees, and they follow, as far as the charter acts are concerned.

Their main intent, of course, is to buy these residential mortgages, and all are subject to maximum dollar amounts as to what they might purchase, as well as what types of mortgages.

Even with all the oversight and the control that Congress has at the present time, we just feel that a user's fee would generate more income, and really, it is a tax on home ownership, because it would generate more income than would be needed to even pay for the program itself.

As I said, the 3.8 percent, from what I am hearing, is more than carrying the costs and the overhead of FHA today, and even though VA is somewhat running short, and had to come to you for appropriations, it is certainly not necessary to increase that fee to 5 percent.

OUT-OF-POCKET EXPENSE WOULD INCREASE

Now, in the handout that is in my pocket, the National Mortgage Bankers Association used a loan of $52,000, average, and $63,000 for a VA, and I am using an Indiana view, which basically, in Indiana, the average VA loan is somewhere around $40,000, and the FHA loans, about $42,500. And I have used these figures based on what it would cost for the implementing of these additional fees, either out of pocket, or, if it were financed. And of course on the VA loan, if it was in fact moved from 1 to 5 percent, it would increase the out-of-pocket expense by about $1,600 for the veteran buying, getting this average loan of $40,000.

If he were to finance it—and this is using 12½-percent interest rate for 30 years—his monthly payment would increase by about

$17 a month, or a little over $6,000 in 30 years, just for principal and interest alone, and if he paid it—and that would entail an increase in income, to handle that additional monthly payment, and again, using 30 years or $52,200 in income. And obviously, most mortgages do not last for 30 years, but even using a 12-year payoff, you can see the amount of dollars that will be needed.

And VA, or FHA, although it is not quite as, the impact is not as great because the move is only from 3.8 to 5 percent, it amounts to about a little over $500 in cash outlay, or, over the life of the loan, about $3,600.

I really appreciate the chance to be here, and we are concerned about the user fees, and the fact that it is becoming more of a tax on home ownership, and probably generating funds that are way in excess of what is needed to actually keep the programs alive. Thank you very much.

Senator QUAYLE. Thank you very much, Mr. Frey.

[The prepared statement of Mr. Frey follows:]

PREPARED STATEMENT OF WILLIAM FREY

Senator Quayle, my name is William Frey. I am President of the Franklin Mortgage Corporation located in Indianapolis, Indiana. I am pleased to have the opportunity to present my views on the Fiscal Year 1986 budget proposals that are currently being considered by the Senate.

There is no doubt that the current high deficits are unsustainable and the compounded impact of those deficits will create unprecendented problems for this Nation's economy. This year will present tough budget choices to the Congress as it reviews proposed spending cuts and tax revisions.

One item of particular concern to me as a mortgage lender is the proposal to impose socalled "user fees" on the home mortgage insurance and guaranty programs of the Federal Housing Administration (FHA) and the Veterans Administration (VA), as well as the secondary mortgage market operations of the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA).

The proposal in the budget would increase the fee for the FHA mortgage insurance program from the current level of 3.8 percent to 5 percent. The VA Home Loan Guaranty program funding fee would be increased from the existing fee of 1 percent to 5 percent.

Additionally, there would a be a second layer of fees imposed on the federally related secondary mortgage market entities. The GNMA Mortgage-Backed Security (MBS) fee would be increased from the current fee of 6 basis points (a basis point is 1/100 of one percent) to 15 basis points. FNMA and FHLMC currently are not subject to any fees, because they are quasi-private government chartered entities that are not authorized to offer a government guaranty. Nonetheless, the proposal would impose an annual charge of 5 basis points on the outstanding balance of any mortgage-backed securities or participation certificates (PC) issued by FNMA or FHLMC. The proposal also calls for a fee to be imposed on any debt issuance or rollover of existing debt. In FY 1986, this fee would be 5 basis points and would be increased to 8.3 basis points in FY 1987.

The concept of a user fee, in my mind, must be tied to the cost of providing a service. In that sense, the FHA unsubsidized mortgage insurance programs 9Sections 203 (b), 234, 244 and 245) have always been subject to user fees, because the mortgage insurance premiums that are charged to borrowers have always covered the costs of operating these programs, including administrative expenses such as salaries, overhead, etc. as well as losses attributable to default claims that must be paid. The Mutual Mortgage Insurance fund (MMIF) into which these premiums are paid is in fact a substantial reserve fund that ensures that these programs will operate on an actuarially sound basis. Thus, the cost of providing the service that the Federal government offers—mortgage insurance—is fully covered at present by user fees. Yet this proposal would increase those fees so that the Federal government would derive a profit from these program operations. Some call that revenue enhancement, but I believe it boils down to a tax on homeownership. And that tax is focused on those who can least afford it—moderate-income homebuyers at the lower end of the scale. The average FHA loan in 1983, the latest year for which statistics are available, was approximately $52,000 and many FHA borrowers are first time homebuyers who need the FHA low downpayment program to get their foot in the door of homeownership. The maximum loan that FHA may insure is $67,500 and up to $90,000 in designated high cost areas; these limits serve to focus the benefits of the FHA program on those that need them.

The VA Home Loan Guaranty program is not fully covered by the present user fee. Last year, Congress increased the fee from ½ percent to 1 percent. Nonetheless, the program is currently operating with some losses that required appropriations last year. Even the ½ percent fee was only recently imposed, because prior to that time, Congress had viewed the program as an entitlement program. While there may be some validity in determining the actual cost of operating the VA loan program and imposing a user fee matched to the costs of operations, I must again take strong exception with the proposal to increase the fee to a full 5 percent and thus profit from the program.

Veterans benefit from the VA program, which guarantees no downpayment loans up to $110,000. Where there is a downpayment, the loan amount may range up to $135,000. These maximum loan amounts allow the program to serve moderate-and middle-income veteran homebuyers. The proposed user fees would impact this program most heavily, because the jump from 1 to 5 percent is such a drastic one.

Not only would the proposal hit these loan guaranty and insurance programs hard, but it would also impose an additional layer of fees on secondary mortgage market entities. The secondary mortgage market allows lenders to package mortgages into large "pools" and to issue mortgage-backed securities to investors who are attracted to these high quality investments. The issuer must secure a guaranty (from GNMA, FNMA, FHLMC, or a private insurer) which ensures that the principal and interest payments are passed through from the borrower to the lender to the investor in a timely manner. The benefit of this securitization is that a wider variety of investors are attracted to these instruments because of the assurance of timely payment without the need of individual investigation into the underlying assets of the security. The benefit to home borrowers is that there is access to mortgage credit at rates and terms comparable to those available to major corporate borrowers.

GNMA, FNMA, and FHLMC are all chartered by Congress and are subject to limits on their operations that are imposed and reviewed by Congress. Their Boards are wholly or partially staffed by presidential appointees and their purpose is carefully outlined in their Charter Acts. They may only purchase residential mortgages and are all subject to limits on the maximum dollar amount for the mortgages that they may be purchase.

Despite this high degree of governmental control and oversight, the budget proposes user fees that exceed the cost of operating these entities, all of which do not cost the Government a penny. GNMA currently charges a guaranty fee that not only covers the costs of program operations and claim losses, but also is sufficient to set aside funds for a substantial reserve. Both FNMA and FHLMC currently charge user fees to lenders for mortgage purchases and guaranties of mortgage-backed securities that are set at levels designed to cover FNMA's and FHLMC's costs and underwriting risks. None of these entities require any Congressionally appropriated funds to operate.

Yet these operations would also be subject to user fees, totally unrelated to program risk, under the budget proposal.

Charging fees to users of the government's housing and mortgage credit programs for the purpose of enhancing revenues is a thinly disguised tax that is targeted toward homebuyers at the lower end of the scale. These proposals will increase mortgage rates generally and, thus, are contrary to the Congressional purpose of fostering homeownership through these programs and entities. If Congress believes that the only avenue left to cut deficits is that of taxation, then those taxes should be broad-based--not concentrated on the home borrower.

Thank you for this opportunity to testify today. If you have any further questions, I would be happy to provide answers or information now or for the hearing record.

INDIANA VIEW

2/11/85

Average FHA Loan $42,500

	Present	Proposed	Difference
Sales Price	$44,250.00	$44,250.00	-0-
Minimum Down Payment	1,750.00	1,750.00	-0-
MIP	(3.8%)1,615.00	(5.0%)2,125.00	+510.00
Total Cash out of Pocket	3,365.00	3,875.00	+510.00
Monthly Payment (P&I) 12½% 30 Years	453.60	453.60	-0-
Monthly Income to Qualify Payment 35%	1,300.00	1,300.00	-0-
	OR		
MIP financed New Loan	$44,115.00	$44,625.00	+510.00
Monthly Payment (P&I) 12½% 30 Years	470.82	476.29	+ 5.47
Monthly Income to Qualify	1,350.00	1,360.00	+ 10.00

--Additional $510.00 in cash outlay or if financed an additional $1969.20 in P&I over 30 years and approximately $3600.00 of income for housing expense only.

--Additional insurance exposure for HUD if financed.

Senator **Quayle**. Let me just ask about these user fees. Would you still be opposed to the imposition of user fees, even if interest rates came down?

Mr. **Frey**. Yes.

USER FEES BECOME TAXATION ON HOUSING

Senator **Quayle**. In other words, you are basically to the concept of imposing user fees on these particular markets? Is it the level, or is it the principle of user fees? Is there a tradeoff on higher user fees versus lower interest rates?

Mr. **Frey**. Well, not necessarily a tradeoff in higher or lower interest rates. I think personally, it becomes a taxation on housing. There might be some middle ground in there that I think fees, user fees could be imposed to offset the costs, or the losses that a program might be experiencing, providing, of course, that it is being managed effectively.

I think that is where we have—it would be good if we could—you know we talk about a spending freeze, and true, I think we could freeze, but then I think we have to go for efficiency after we freeze, and maybe we would develop a scream index or something, and start cutting back after we freeze until the screams become understandable. But to answer your question, per se, I am opposed to a user fee that becomes a tax on home ownership.

Senator **Quayle**. OK. Let me ask each one of the witnesses: If you could identify for me a couple of the so-called sacred cows of the housing industry. Are there a few out there, or, do you think we can take a look at everything? If you had to respond very quickly, Mr. Hart, what would you say?

ATTACK FROM ANOTHER AREA

Mr. **Hart**. Well, I think the deduction of property taxes and interest are very important for the prime home, and I think both Bill and I mentioned that. I am a little bit against the theory of fiddling with depreciation and interest deductibility as an expense of doing business. It is an expense and always has been and always will be.

The fact is that really, we should attack from another area, and Bill probably will not like this, but I think it is time we look at using the losses in a business or a company to offset other income, and I truly think if you are going to plug the loophole, that is probably where we would have to begin.

I think a business that has a loss, if it is an apartment project, commercial project, ought to be able to carry their normal expenses and loss carried forward, and to eternity if they never make a profit, but they should not be able to offset it against professional income and some other source of income. That is the one that I, sacred one, that I would say it is time to give up, if you want to balance the budget.

Senator **Quayle**. Mr. Grossman.

Mr. **Grossman**. In response to your question, I think that I, too, agree with Mr. Hart. The home mortgage interest deduction and the property tax deduction are critical, in terms of——

Senator QUAYLE. What about on the spending side, the subsidies, loans, and things of that nature in the housing industry? Are there a couple of sacred cows there, or, is the feeling not as strong?

HOUSING SHOULD NOT BE SUBSIDIZED

Mr. HART. You had better look at your section 8 deal right tomorrow when you go back, because they are subsidizing rents. Wherever section 8 is used, that tenant is paying a higher rent, a third higher rent than in a nonsubsidy unit. It is going to be the next housing scandal and unfortunately it is there. They are not using comparability in the marketplace to determine what is a fair market rent, and they are being forced by, because they have got COLA's and other things involved, to compensate on a rent basis. And we have got cases where people are living in two bedroom units at $450 a month with a subsidy, and they could walk across the street and live in one for $250 without a subsidy. But since they are only paying 30 percent of their income, they are only paying $150 in the $450 a month apartment. I am just almost ashamed that we start these programs, and then they get away from us, and here we are fiddling around, like Bill Frey says, trying to make a veteran pay $2,000 more over the life of a loan.

Actuarially, none of these insurance programs of VA, or FHA, have ever had to ask the Government for any funding. They have always been in the black, and supported themselves, and they want to use those as revenuing. Why do they not go back and looking at the lousy Section 8 Program and get it corrected?

Senator QUAYLE. Mr. Grossman and Mr. Frey, do you agree that section 8—is that bad and we are really paying—that much over markets value? I do not dispute your expertise in this, but if we're paying $450 and they can walk across the street and get something for $250, that is a 45-percent difference, and that is somewhat scandalous if that in fact is——

Mr. HART. In New York it is worse.

Senator QUAYLE. Mr. Grossman and Mr. Frey, I presume that since you are nodding your heads yes, in assent, that this is in fact going on, and perhaps this is an area in the housing arena that we could take a strong look at?

Mr. GROSSMAN. I agree; yes. I do not think housing needs any subsidies. You know, the 235 Program on single family has been in and out, and it is back in now, temporarily, which surprised me when that happened. But I do not think we need subsidies.

What we need more than anything is stability. If we could figure out what the Government is going to do, then Wall Street can figure out what they are going to do, and then that would help us to strive for stability, because right now, there is not any.

But Wall Street I think is just waiting, and they are going to give so much time for this occurrence to take place, this straightening of the deficit, and then I am afraid that if it does not take place, the rates are going td go right back to the ceiling again, because I do not think Wall Street is going to sit and wait much longer.

Senator QUAYLE. You see upward pressure on the interest rates if these deficits are not contained?

Mr. **Grossman**. That is correct.

DEFICITS WILL DECREASE DEMAND FOR HOUSING

Senator **Quayle**. If in fact these deficits, projected by 1985 to be $235 billion and $200 billion in future years, what does that mean for the Indiana real estate market? I wonder if you might just summarize what you think, about the impact to the Indiana real estate market, and the housing market, would be, if in fact deficits do not begin to come down. Mr. Grossman, let us start with you.

Mr. **Grossman**. Let me answer, first, I think No. 1, it will certainly decrease the demand for housing because it is going to be so expensive. Interest rates are going to continue upward, as Bill Frey mentioned, and that is going to: One, not allow people to get in to their own home, and two, that is going to directly affect the number of people on the construction payrolls. So you lose jobs, you lose the income that that is going to produce to the families of potential construction people.

All of a sudden it is a snowball effect. You do not have any increase in housing, maybe a decrease, which in turn allows no new jobs from the construction side of things to be generated, and possibly even a loss of some jobs already in place.

Senator **Quayle**. Does anybody want to add to that? Mr. Hart.

Mr. **Hart**. Well, we are really down to a place where we are talking about whether you are going to have inflation or not have inflation. If you have those kind of budget deficits, you are going to have inflation, double digit. What happened during the last inflationary period is Bill's industry, the resale industry, will sell five houses, four to five houses a year for every one we build, and you are not only financing a new home, then, from scratch, which is a $55,000 mortgage, but you are refinancing 15-20 percent inflation in the old houses each year, so you are taking—I have not used a calculator on this, but maybe three times the amount of money, to satisfy the housing market because you have allowed inflation to come back in.

The reason that the economy is showing some buoyancy today is because inflation is down and we are only financing, we are going to the marketplace for new homes and not for existing. Existing homes are doing owner finance, or are trading dollars. They have to go back and refinance, but there is very little inflationary dollars that the homeowner is picking up through refinancing them.

INFLATION WILL KILL US

Senator **Quayle**. You are saying that inflation, the return of inflation——

Mr. **Hart**. Will kill us.

Senator **Quayle**. But you fear that, do you not, if deficits do not turn down?

Mr. **Hart**. I do not want to see any more inflation, period.

Senator **Quayle**. I do not, either, but the interesting thing to me is that you in fact do fear that inflation is going to come back, if in fact deficits are not turned down?

Mr. **Hart**. Oh, I think it is a temporary lull.

Senator **Quayle**. A temporary lull.

Mr. **Hart**. Where you are on a time bomb.

Senator **Quayle**. I do not disagree we are sitting on a time bomb with the deficit. Right now, according to the calculations I have, what is really financing these deficits is foreign capital.

Mr. **Hart**. That is right, and they could pull that out any time.

Senator **Quayle**. Forty-eight percent of the current requirements I think are being financed by foreign capital, and if in fact that starts to dry up, what do they do? Will they put the brakes on and hold it, try to keep inflation in check, or, will the political pressures be so great that they loosen the monetary supply and return us to the days of high inflationary expectations?

You are on the firing line, day in and day out. But, at the hearings that we had last week we heard that inflationary expectations, even from the Chairman of the Federal Reserve Board; were pretty much down, and were going to stay down for the next year. But what I hear today, which I think is far more responsive of what is out there in the real world, if I may be so blunt about it, it is that you really anticipate, or have expectations of a return of inflation if we do not do something about those deficits. This a different type of response than in the Senate budget hearings this last week. I place far more credence in what you are saying because you are the ones who make those decisions on a day to day basis.

Mr. **Frey**. Senator, if I could just say, today, the popular rate, let us say, is 12½ percent on a 30-year fixed, and inflation is where, 3 to 4 percent? So we have got an 8-point spread.

Senator **Quayle**. The real interest rates—that is the real cost of money is higher than it has ever been in our history. We have always had a real rate of what? Three percent?

Mr. **Frey**. Two or three percent.

Senator **Quayle**. Two or three percent. That was the real cost of money then. Now the real cost of money is 8 percent.

Mr. **Hart**. Yes, but the reason it is that high is that they are building up their reserves against the bad inflation that just left the last 10 years. We have not said anything about the farmer, and I did want to make one quote there, if I might.

Senator **Quayle**. All right. Go ahead.

SET UP RECONSTRUCTION FINANCE CORPORATION

Mr. **Hart**. I truly think we have got to set up a Reconstruction Finance Corporation of some type for the farmer. I think they are in as bad a shape as housing was years ago, and I think that priorities go to farming. I think that the agencies that set aside and bid out properties that go to foreclosure, and turn them back over to the same farmer on a homesteading basis, and drive the product down to where there is no inflation in the price when they buy it out of the courtroom.

If some of the financial institutions see a Federal corporation coming along with the farmer to buy the property back, they are not going to let it go to foreclosure, and they are going to deal prior to foreclosure, and you will solve your whole problem.

Senator **Quayle**. Have you had a chance to look at what the administration is talking about, the refinancing availabilities for the farmer on credit, either have a writedown of 10 percent, or to lower the interest rate down to 90 percent—either/or—with the idea that you are going to go ahead and refinance those that have a chance of making it?

Mr. **Hart**. Well, I think you have to reappraise the whole farm value because some of these farms went through 24- and 28-percent interest at prime plus 2 and 3, and you cannot get them back to true market value without going through the wringer. I am just saying that let the financial institution have a choice of going through the wringer and looking for a bidder, and have the Federal Government, with an agency and the farmer in one hand, standing next to it, to bid the property back, and then put it on a payment basis that is workable.

Senator **Quayle**. All right, gentlemen. Thank you very much. We are going to adjourn here for 15 minutes. We will reconvene at a quarter of two, with Mr. Brady Justice and Mr. Kenneth Stella.

[Whereupon, a brief recess was taken.]

Senator **Quayle**. We will resume the hearing and go ahead and continue with Mr. Brady Justice and Mr. Kenneth Stella.

Greetings, Mr. Justice. Do you want to go ahead and proceed?

STATEMENT OF BRADY R. JUSTICE, JR., PRESIDENT, BASIC AMERICAN MEDICAL, INC., INDIANAPOLIS, IN

Mr. **Justice**. I am Brady Justice. I am the president of Basic American Medical, Inc., and our company owns and operates acute-care hospitals and other medically related facilities.

There are a couple of comments that I would like to make about the deficit and the budget in general, and then I would like to talk particularly about our industry, if that is all right.

As you have pointed out there, the deficit we are anticipating in the next several years seems to be an almost unconscionable and irresponsible way to deal with the future generations, and so I would encourage the Congress, that it is its primary imperative to get those deficits out of the way.

I think that almost goes without saying. I think that one of the reasons that it is imperative that we do this is because, in creating these deficits, one of the primary things that it has done, is to drive up our interest rates. It has caused an artificially high U.S. dollar outside of the United States, and it appears to me, is hastening the demise of our basic industrial industry, especially here in the Midwest. I do not think there is any question that we are moving to a service nation as compared to an industrial nation, but I see no reason that the Government policies should promote or accelerate this particular activity.

The second thing, in a general statement on our taxation policy and also, on our expenditure policy, it seems to me, that one of the things that is most frustrating to business and most frustrating to the individuals is the uncertainty of the programs that we exist in.

Surety, principal of activity, rather than the expediences that seem to have crept in to our tax-gathering system, make it almost impossible for anyone to plan more than 1 year or 2 years at a time. And so it seems that we should make every effort to establish an expenditure policy and a taxation policy that is based on principle, and that would provide a certainty, or reasonable certainty from year to year.

ESTABLISH ADEQUATE LEVEL OF SERVICE

Since our company is involved in the health care industry, the specifics that I would like to talk to you about deal with only two of these problems that I see, that relate to our Federal deficit, and the thing that we are concerned with more than anything else. And that would be in the Medicare policy. We deal, to some extent, with the Medicaid policy, but in the acute care hospitals, the Medicare policy is much more important to us. It seems to me that the Congress, the administration, the Government, in total, should establish what is a proper and an adequate level of service to our citizens, that should be covered in the way of medical care.

Once this program has been established, then it is only incumbent on the Government to provide the funds to pay for the program which they think is adequate and appropriate, legislate the benefit, and then provide the funds to pay for it.

One of the major problems that we have in the country today is not in the area of those people who have either a health care program or financial resources to take care of their own health policy, or, those who are either in an age group that is taken care of, in a Medicare Program, or in the economic strata that is provided for in the Medicaid Program, but it is those that fall in the never-never land of the medically indigent. And there has been no attempt, reasonable attempt by the Government to deal with this at all.

The President had a task force on ethical problems in medicine, that decided that this is a societal problem, and yet there has been nothing done with it. And at the present time, the only thing that happens is, there is a cost shifting for this indigent care. It is not that it goes away, that nothing happens to it. It is just not provided for and then the mechanism of the marketplace shifts this to the other payers. This is what is commonly called the cost shifting or I look at it as a problem of the medical indigents. And there has to be something done with it.

FREEZE UNCONSCIONABLE WAY TO DEAL WITH PROBLEM

The proposal that has come down, the only one that I have heard, that attempts to deal with the problem of the out-of-control medical costs, or the problem of the Federal Government's payment of the Federal costs, seems to be a freeze, and I think this is an unconscionable way to deal with any type of a program.

Now if you have a way that you want to reduce the amount of these benefits that are given, and it is a good public policy, and that it is an acceptable thing, that is all right; but do not leave the benefits the same, and then try to freeze the money to pay for these.

This would have the ludicrous—an analogy would be to say the Federal Government will decide that it will freeze the amount it will pay for automobiles, but will not freeze the number of automobiles that you can buy, and that the providers are compelled to take whatever you will pay them for those numbers of automobiles.

This shifting of cost will obviously have to go to some other payers and is an unconscionable way to deal with our medical problem. The Federation of American Hospitals has given a series of suggestions on how to deal with indigent costs and I have presented these to you in the paper, and will not bother to go through these. I am sure you are aware of all of these.

LET DRG PROGRAM RUN ITS COURSE

There is one other thing that I would like to give you my opinion with regard to, and that is with regard to the Prospective Payment Program that is now in place for hospitals for Medicare.

This is commonly referred to as the DRG, or Diagnostic-Related Group Prospective Payment Program. It is my opinion that Congress should allow this to run its course. In order for it to even go into place, it requires at least 4 years before we will know if the program that has been outlined is a workable and a manageable outline, and in order to have some degree of certainty in the marketplace, and to have some degree of certainty, it appears that that program should be allowed to work its full course, at least for the 4 years.

At that time, that requires in those 4 years, only fine tuning of the system, and there has been some fine tuning, but no major overhaul or change in the system, and I think that is as it should be.

With regard to the DRG system, there is only one of the fine tuning areas that I would like to testify, that I think is inequitable and needs to be dealt with, and if it is not dealt with, will become a severe limitation on our entire health industry, and that is the urban/rural hospital DRG rate. Even when the program is in place, there will be a bias in favor of the urban hospitals in the payments that they receive for identical services. This seems to be not only unfair in our system, it seems to be the major flaw that I see in the DRG system, that could cause it to fall.

Therefore, I would urge you to look at the urban/rural DRG problem before it festers into something that would bring down the system.

This is my oral testimony. I will be happy to answer any questions that you might have, and I have presented you with copies of our paper that would present this in more detail. Thank you.

Senator **Quayle**. OK. We will put your paper in the record, Mr. Justice. Thank you very much.

[The prepared statement of Mr. Justice follows:]

WRITTEN TESTIMONY
OF
BRADY R. JUSTICE, JR.
BEFORE
THE HONORABLE DAN R. QUAYLE
February 11, 1985
Indianapolis, Indiana

My name is Brady R. Justice, Jr. I am President of Basic American Medical, Inc. Our company owns and operates acute care hospitals and other medically related operations.

First, I would like to make a general statement about the Federal Budget. It is my opinion that the Federal Goverenment should contain current expenditures to the extent of the current revenues. It is absolutely irresponsible to pass along accumulated deficits to future generations. At the same time I realize that because of numerous circumstances, our Federal Government is now operating at a huge deficit. Even though pragmatically it seems impossible to correct this situation at once, it should be the imperative of the Congress and the Administration to correct this situation as soon as practical.

It seems clear that our country is moving from an INDUSTRIAL NATION to a SERVICE NATION. However, the governmental policies should not push and hasten this change. High deficits cause high interest rates and cause an artificially high U.S.dollar abroad. This is forcing our industrial base out of the country at an accelerated rate. This seems to be bad public policy. In the long-term, our country may not be the primary producer of auto, steel, heavy machinery, etc. However, there is no need to conclude that we will have no industrial base or that we must abandon our substantial industrial base immediately. This is exactly the result of high deficits.

Second, with respect to taxation policies and expenditure policies, the Congress and the Administration should realize that uncertainty and precipitous change have a devastating effect on individuals, companies and to the economy as a whole. Therefore, every attempt should be made to establish taxation and expenditure policies based on principals that provide reasonable certainty from year to year.

Our primary financial contact with the Federal Government is through the Medicare Program and to a lesser extent the Medicaid Program. Therefore, my specific testimony will deal with my opinions on these programs and how they affect us as a Provider of medical services.

It is my opinion that the Government should decide what level of medical benefits are appropriate and good public policy and that are properly affordable by the Government. Then the Congress and the Administration should provide enabling legislation

Once the appropriate level of medical benefits is determined, the Government should provide adequate funds to pay for these benefits. This is the only proper and ethical way for a government to deal with the citizens.

If the Government decides, that there are fewer funds available for any particular benefit. Then the Congress and Administration should have the courage to reduce the benefits. It does not seem fair or proper to expand benefits and not provide adequate funding.

These actions should be done in a forthright and frontal manner. It does not seem fair or ethical to do this in an indirect manner. It is not proper to provide benefits and then shift the cost indirectly to others! This is the crux of my testimony. Legislate the appropriate medical benefit - then provide adequate funding.

Let me deal with two specific areas where it seems Congress should address the Medicare/Medicaid problems.

INDIGENT CARE

The President's Commission for Study of Ethical Problems in Medicine, in its 1983 findings stated:

> "Society has an obligation to ensure equitable access to health care for all, but the societal obligation is balanced by individual obligations to pay a fair share of the cost of their own health care."

Further:

> "The cost of servicing health care for those unable to pay ought to be spread equitable at the national level and not allowed too fall more heavily on the shoulders of particular practitioners, institutions or residents of different localities."

I agree with these statements.

Presently, the Federal Government has a program for medical care for the elderly (Medicare) and a program of medical care for the very poor (Medicaid). Unfortunately, this does not cover all medically indigent persons.

The cost of the medical care for the remainder of the medically indigent to be borne by the health care providers (hospitals, physicians, etc.) in the form of "free care" or bad debts.

Unfortunately, these costs are then shifted to other non-governmental patients by the technique of "cost shifting".

It has been suggested that a "freeze" be applied to Medicare costs for 1985. In my opinion, this approach is totally unacceptable. The government must decide what benefits are to be reduced or limited and then reduce or "freeze" expenditures.

This is no way to contain costs. It is just a method of containing government expenditures. The cost will be shifted to other payors.

Therefore, the Federal Government must find an appropriate way to provide for indigent care without entering into indirect cost shifting.

The Federation of American Hospitals has prepared options for indigent care which I present to you:

OPTIONS FOR INDIGENT CARE

Because caring for indigent patients is a societal responsibility, ideally a broad-based, tax-supported approach should be used to finance medical care for those unable to afford it. Tax revenues should be earmarked for indigent care, funds should be channeled to hospitals and physicians where the need is the greatest with incentives to control costs.

A. Acceptable Options: (Ranked from most to least acceptable)

1. Expansion of the state's Medicaid program: Such expansion could include increased eligibility, new services such as perinatal, maternity and prenatal care and transportation. States that currently do not provide the full range of benefits which qualify for federal matching funds can maximize their spending in this way. In expanding Medicaid, states should design "prudent purchaser" systems such as contracting, prepaid financing and delivery systems using primary care physicians as "gatekeepers."

2. State or county appropriations for hospitals serving the medically indigent, particularly to those hospitals which provide a disproportionate share of health care to indigents.

3. Earmarking funds from existing sources: indigent care funds could be dedicated from excise taxes on alcohol or tobacco products, sales or property taxes or state lottery revenues.

4. State risk-sharing pools to provide comprehensive health insurance to high-risk individuals or others who cannot otherwise obtain coverage: the pool could be established by legislation requiring all insurers in a state to offer coverage to unsponsored persons on a shared basis. Each participating carrier's risk of loss would thereby be reduced because the liability is shared by all members of the pool. Generally, a risk-sharing pool is designed to be self-supporting through subscriber premiums. In this case, states could require insurers to assume the cost of the premiums, could provide funds to cover the cost of all or a part of the premiums or could also provide indirect subsidies by allowing the insurers to take certain tax deductions.

5. Mandatory expansion of employer-provided health insurance: a state could require employers to provide health insurance benefits to its employees and their dependents. Employers also could be required or encouraged to provide continuation or conversion policies whereby employees losing their jobs would continue to be covered under their employer's or insured spouse's health benefits plan for a specified period. Employees would be able to convert to another, less costly, health benefits plan after that period. A variation would be to require employers to provide catastrophic health insurance during employment and perhaps for a specified period after employment.

B. Unacceptable Options: the following options are unacceptable because they place the entire burden of paying for indigent care on hospitals.

1. Flat per bed tax tax on hospitals to finance an indigent care pool.

2. Assessment on hospitals as a percentage of revenues to finance an indigent care pool.

3. Tax on hospital bills of insured patients earmarked for indigent care.

4. Quota requirements that mandate that hospitals provide indigent care equal to a certain percentage of revenues. Variations of quota requirements include:

- requiring hospitals through state licensure or certificate-of-need requirements to provide a certain percentage of patient revenues in indigent care;

- voluntary programs where hospitals donate their services and indigent patients are referred to those hospitals which identify themselves as willing to provide indigent care; and

•pooling of funds that are distributed among hospitals to pay for indigent care with the pool being created by contributions or taxes on hospitals with funds being distributed to hospitals that provide more than a certain percentage of revenues in indigent care.

DIAGNOSTIC-RELATED GROUPS (DRGs)

Last year hospitals were paid for Medicare patients under the new Prospective Payment System (PPS). The system of Diagnostic-Related Group System was selected. The system has many iniquities; but seem to have been arrived at as a result of many compromises. This would be true of any system.

It is my opinion that the system should be allowed to work for the complete four (4) year cycle. At that time there would be only two (2) DRG rates in effect in the country (Urban and Rural). Only "fine tuning" adjustments should be made to the system until the full cycle has been completed.

Probably the most inequitable part of the present DRG System is the designation of Urban/Rural areas with a different payment rate for each (lower in the rural areas). If the DRG System is logical and fair, it should take care of the differences in intensity of care without resorting to a discriminatory classification method. In other words a case of the flu should be reimbursed the same whether it is treated in a rural or urban hospital.

SUMMARY

1) Eliminate the deficit as soon as practical.
2) Maintain eaxpenditure and taxation system.
3) Find a fair way to deal with indigent care.
4) Keep a consistent prospective payment system in place.

I thank you for your invitation and the courtesy extended to me.

Senator QUAYLE. Mr. Stella.

STATEMENT OF KENNETH G. STELLA, PRESIDENT, INDIANA HOSPITAL ASSOCIATION, INDIANAPOLIS, IN

Mr. STELLA. Thank you, Senator Quayle. I am Kenneth Stella, president of the Indiana Hospital Association.

The IHA, which represents over a hundred and fifteen member hospitals, and health care institutions, is pleased to have this opportunity to present its views with regard to Federal budgetary policy.

Indiana hospitals are a significant factor in the provision of service to Hoosiers and to the Indiana economy. While it is true that health care costs, nationally, and in Indiana, have increased significantly since the advent of Medicare, many significant improvements in the health care system have occurred during the same period, in the availability and access of health care for the poor, elderly and others, who often were unable to obtain necessary health care treatment.

HOSPITAL INDUSTRY VICTIM OF OWN SUCCESS

In some respects, however, the hospital industry has been a victim of its own success, in that medical and technical advances, and improved access have, in fact, aided longevity and presented situations that create economical and ethical problems, in terms of sustaining life far beyond what had been possible only a few short years previously.

There of course must be a legitimate debate as to the amount of health care services that can be provided by Government, or through the private sector, since there now is a clear realization that resources are finite. Development of appropriate public policy with regard to the amount and extent of services to be rendered must of course occur.

While there is, unquestionably, increased demand for hospital and health care services, particularly as the population ages, those services are now being rendered in an environment of extreme cost containment and restraint, thereby increasing dramatically the challenges to the Indiana hospital industry.

The Medicare prospective payment system has in fact produced real incentives in reductions and expenses, and moderated utilization trends. As encouraging as these developments are, we must continue to be aware that there still is considerable demand for services, that hospitals must provide with much more limited resources than previously available.

Consequently, IHA urges that the commitments made by Congress in 1983 regarding the Medicare prospective payments system be honored, since hospitals have performed effectively, and as intended under the program.

The continuation of such effective performance can only occur if hospitals continue to receive fair price increases reflecting increased cost of supplies, services, and wages and salaries to hospitals. This principle was implicit in the development of the system, and to suggest that a freeze is now appropriate certainly is inconsistent with the promises and commitments made upon enactment of the program.

FREEZE WOULD REQUIRE SACRIFICE

Further, a freeze on Medicare payments at fiscal year 1984 levels unfairly requires hospitals to again accept sacrifice, disproportionate to what others have had to bear.

For example, in 1983-84, hospitals have largely absorbed the constraints in the Medicare Program, and would again be required to do so under a freeze approach. IHA is more receptive to reductions that are evenly applied to all programs, since that does represent a fundamental equity, even if it imposes further hardship and sacrifice upon hospitals.

IHA does wish to commend the Congress for its commitment and vision in the development of the Medicare prospective payment system. Even where that system does produce some individual inequities, praise is nonetheless merited, however, since the program has injected, for the first time since 1966, necessary meaningful incentives and constraints.

These forces at work in the hospital system are causing a rapid and significant response, which is reflected in the development of new concepts of payment delivery, and insurance. Many insurers, hospitals, businesses, and other groups are experimenting with prospective pricing systems, special alternative contract proposals, and new benefit designs for consumers of health care. The Medicare prospective payment system, in part, has helped spur renewed interest in prepaid delivery systems, and in preferred provider organizations. While it is debatable as to whether these latter entities will provide meaningful delivery, or cost incentives, these programs are generating considerable discussion, interest, and activity.

As Congress considers budgetary policy in 1985, IHA would support the continuation of the existing Prospective Payment Program, since we believe it has been largely successful and has accomplished the goals and objectives originally envisioned.

IHA SUPPORTS INCREASED PARTICIPATION IN COST SHARING

Further, IHA supports an increased participation by beneficiaries in the Medicare Program in terms of cost sharing where such individuals are able to pay.

As the beneficiaries begin to be involved significantly in the financial decisions relating to their care and treatment, needed additional incentives will be injected into the system.

IHA firmly believes that consumer involvement in decisions affecting the type and cost of health care received is a major advance necessary to establishing full competitive forces in the health care field. Consequently, IHA generally supports greater participation by Medicare beneficiaries in terms of payment of deductibles and coinsurance. Finally, IHA is concerned that further radical modifications in the existing Medicare system will be extremely difficult for hospitals to absorb in 1985. It is our judgment that that system is well in place, is generally sound, and should be given additional time to prove its value in terms of creating incentives, and injecting constraints, all with the aim of maintaining an acceptable level of care at a reasonable price for the American public.

Senator Quayle, the Indiana Hospital Association appreciates this opportunity to present its views, and we request consideration of these views as the debate occurs on the Federal budget. Thank you.

Senator QUAYLE. Thank you very much, Mr. Stella.

[The prepared statement of the Indiana Hospital Association follows:]

STATEMENT OF THE INDIANA HOSPITAL ASSOCIATION BEFORE THE SENATE BUDGET COMMITTEE ON FEDERAL BUDGETARY POLICY

February 11, 1985

SUMMARY

Indiana hospitals have functioned very effectively within the incentives and constraints enacted most recently in the Medicare program by the Tax Equity and Fiscal Responsibility Act of 1982 and further by the implementation of the Medicare Prospective Pricing System in 1983. These new incentives and constraints, in many instances, have resulted in considerable innovation and competition in the hospital field and have resulted in extremely low rates of increase in hospital prices which have benefited all patients including, of course, Medicare beneficiaries.

The recent efforts of federal and state government and the private sector to reduce increased expenditures for medical care, while quite successful, depend, in large part, upon a continuation of Congressional commitment to principles implicit in the Medicare Prospective Payment System. For example, while the system has, in many ways, limited hospital payment, it has produced effective incentives, but those incentives can only be effective if there are reasonable increases in payments to hospitals since hospitals, of course, have to continue to pay increasing amounts for goods, supplies and wages and salaries.

Further, any freeze on Medicare payments to hospitals would be very unfair since hospitals were required to accept most of the sacrifice incident to implementing cost-containment measures in the Medicare program. Further, a freeze would seriously

impair access to the system for future Medicare beneficiaries since hospitals would be compelled to attempt to provide the same level of service to additional beneficiaries at old payment levels. If on the other hand Congress seriously considers an even-handed reduction that affects all programs and agencies equally, the Indiana Hospital Association believes that hospitals should at least be provided payments at the fiscal year 1985 levels as well as payment for direct and indirect medical education costs, capital, and other pass-throughs.

The Indiana Hospital Association is generally supportive of increased cost-sharing by beneficiaries in the Medicare program if such individuals are able to pay. We view this as further incentives for reducing health care costs and over utilization, and this process also involves directly the consumer in making meaningful financial choices with regard to the provision of health care. Until the consumer of health care services is intimately involved, it may be difficult to initiate further reforms and constraints in the system.

INTRODUCTION

Mr. Chairman, I am Kenneth G. Stella, President of the Indiana Hospital Association (IHA). The IHA, which represents over 115 member hospitals and health care institutions, is pleased to have this opportunity to present its views with regard to federal budgetary policy. Indiana hospitals are a significant factor in the provision of service to Hoosiers and to the Indiana economy as illustrated by Exhibit "1."

While it is true that health care costs nationally and in Indiana have increased significantly since the advent of Medicare, many significant improvements in the health care system have occurred during the same period in the availability and access of health care for the poor, elderly and others who often were unable to obtain necessary health care treatment. In some respects, however, the hospital industry has been a victim of its own success, in that medical and technical advances and improved access have, in fact, aided longevity and presented situations that create economical and ethical problems in terms of sustaining life far beyond what had been possible only a few short years previously. There, of course, must be a legitimate debate as to the amount of health care services that can be provided by government or through the private sector since there now is a clear realization that resources are finite. Development of appropriate public policy with regard to the amount and extent of services to be rendered must, of course, occur.

While there is unquestionably increased demand for hospital and health care services, particularly as the population ages, those services are now being rendered in an environment of extreme cost containment and restraint, thereby increasing dramatically the challenges to the Indiana hospital industry. The Medicare Prospective Payment System has, in fact, produced real incentives and reductions in expenses and moderated utilization trends. Exhibit "2" clearly demonstrates these patterns.

As encouraging as these developments are, we must continue to be aware that there still is considerable demand for services that hospitals must provide with much more limited resources than previously available. Consequently, IHA urges that the commitments made by Congress in 1983 regarding the Medicare Prospective Payment System be honored since hospitals have performed effectively and as intended under the program. The continuation of such effective performance can only occur if hospitals continue to receive fair price increases reflecting increased costs of supplies, services and wages and salaries to hospitals. This principle was implicit in the development of the system and to suggest that a freeze is now appropriate, certainly is inconsistent with the promises and commitments made upon enactment of the program.

Further, a freeze on Medicare payments at fiscal year 1984 levels unfairly requires hospitals to again accept sacrifice disproportionate to what others have had to bear. For example, in 1983-84, hospitals have largely absorbed the constraints in the Medicare program and would again be required to do so under a freeze approach. IHA is more receptive to reductions that are evenly applied to all programs since that does represent a fundamental equity, even if it imposes further hardship and sacrifice upon hospitals.

IHA does wish to commend the Congress for its commitment and vision in the development of Medicare Prospective Payment, even where that system does produce some individual inequities. Praise is nonetheless merited however, since the program has injected for the first time since 1966 necessary, meaningful incentives and constraints. These forces, at work in the hospital system, are causing a rapid and significant response which is reflected in the development of new concepts of payment, delivery, and insurance. Many insurers, hospitals, businesses, and other groups are experimenting with prospective pricing systems, special alternative contract proposals, and new benefit designs for consumers of health care. The Medicare Prospective Payment, in part, has helped spur renewed interest in prepaid delivery systems and in Preferred Provider Organizations. While it is debatable as to whether these latter entities will provide meaningful delivery or costs incentives, these programs are generating considerable discussion, interest, and activity.

As Congress considers budgetary policy in 1985, IHA would support the continuation of the existing Prospective Payment Program, since we believe it has been largely successful and has accomplished the goals and objectives originally envisioned. Further, IHA supports an increased participation by beneficiaries in the Medicare program in terms of cost-sharing where such individuals are able to pay. As the beneficiaries begin to be involved significantly in the financial decisions relating to their care and treatment, needed additional incentives will be injected into the system. IHA firmly believes that consumer involvement in decisions affecting the type and cost of health care received is a major advance necessary to establishing full competitive forces in the health care field. Consequently, IHA generally supports greater participation by Medicare beneficiaries in terms of payment of deductibles and coinsurance.

Finally, IHA is concerned that further radical modifications in the existing Medicare System will be extremely difficult for hospitals to absorb in 1985, as they continue to adjust to Medicare Prospective Payment. It is our judgment that that system is well in place, is generally sound and should be given additional time to prove its value in terms of creating incentives and injecting constraints all with the aim of maintaining an acceptable level of care at a reasonable price for the American public.

Mr. Chairman, the Indiana Hospital Association appreciates this opportunity to present its views and we request consideration of these views as the debate occurs on the federal budget, particularly as it relates to the Medicare and Medicaid programs.

EXHIBIT 1

FACTS ABOUT INDIANA HOSPITALS

***Indiana has 115 general community hospitals**

*53 are owned by state and local government (51 by counties)

*4 are investor-owned

*58 are owned by communities, religious organizations or other not-for-profit organizations

***Hospitals are located strategically thoughout the state**

*58 counties have one hospital

*19 counties have more than one hospital

*15 counties use the hospitals in neighboring counties

***Indiana hospitals contribute greatly to the economy of the state**

*with a payroll of nearly $1.48 billion

*with other expenditures for supplies, services, drugs, etc., of more than $1.15 billion

*Hospitals employ approximately 74,000 persons. In many communities the hospital is among the top 3 employers in terms of persons employed

***Indiana hospital costs are under the national average**

*Average cost per case at an Indiana hospital is $2,533, which is $256, or 10% under the national average cost

*Average rate increase during 1984 was approximately 6% compared to 9% for 1983, 12% for 1982, and 13% for 1981, all below the national average.

Indiana Hospital Association

EXHIBIT 2

INDIANA HOSPITAL INPATIENT UTILIZATION

Data collected from Indiana hospitals relating to inpatient activity for the first nine months of 1984 indicate significant declines in inpatient utilization of hospital services. Admissions declined 3.1%, average length of stay decreased 11.0% and inpatient days declined 13.3%. Indiana results are similar to those being experienced nationally.

Trends, a publication of the American Hospital Association, reports that inpatient utilization in community hospitals throughout the United States has sharply declined. The following chart compares the Indiana and national utilization changes during the first nine months of 1984.

Hospital Inpatient Utilization Changes
Nine months ended September 30, 1984

	Indiana	National
Admissions:		
Under 65	(3.6)%	(4.5)%
65 and over	(1.9)	(2.7)
Total	(3.1)	(3.9)
Average length of stay:		
Under 65	(8.1)	(3.6)
65 and over	(13.9)	(7.8)
Total	(11.0)	(5.2)
Inpatient days:		
Under 65	(11.6)	(7.9)
65 and over	(15.9)	(10.3)
Total	(13.3)	(8.9)

Indiana admissions declined at a rate lower than the national experience. However, greater reduction in average length of stay caused a more significant decline in Indiana inpatient days. The utilization declines are projected to continue into 1985 but at a lesser rate of decline.

Indiana hospital outpatient services also declined. Emergency room visits were down 5.5%, and clinic visits down 8.0%.

Senator **Quayle**. I believe that both of you have indicated that a freeze is very difficult to swallow, and, for various reasons, not the best way to go. If we do not go along the route of a freeze, I wonder if you might have any suggestions on how we might be able to get the $5.2 billion in savings that the administration is requesting in Medicare.

Are there some other alternatives or, is this an area that we are just simply not going to be able to get any savings?

Mr. **Justice**. Let me rephrase. I would not oppose a freeze in the absolute dollars that go to the Medicare Program. All that I ask is that if Congress freezes it, then tell us what you want to take out of the program.

Senator **Quayle**. In other words——

Mr. **Justice**. If you do not want to pay for CAT scanners, then tell us you will not pay for CAT scanners. You know, take the burden of the program as well as the program of the relieving of the money.

Senator **Quayle**. Unfortunately, Congress does not usually act that way.

Mr. **Justice**. I did not think so!

Senator **Quayle**. And what they are going to do is freeze physician pay and freeze the reimbursement schedule at what it was last year. Both of you indicated that, "If you are going to do that, come up with specific recommendations." I wonder if we are going to get those total savings, Mr. Stella, do you have any ideas on how we are going to get there?

PROSPECTIVE PAYMENTS SYSTEMS REAP SAVINGS

Mr. **Stella**. Well, I think, Senator, that one of the problems confronted this year is that Congress put in place a new program, the prospective payments system, and as we look at 1984 figures now, that are just now coming out as a result of that program, Congress has saved dramatically in that area, in terms of Medicare, and there are a couple of exhibits that I have included in my written testimony, that you can look at,[1] in terms of just here, in Indiana.

Now the situation as such, is now you come along and say "Let's take some more out of the program," when we really say, that as you move through 1985 and into 1986, you will continue to see those savings. You will continue to reap savings from this new prospective payments system that has been introduced. But now, it is a situation of where, "Well, let us change the rules again." Eighteen months ago, we agreed that this is what the playing rules were going to be, but now it is time to change again, we want to extrapolate more savings. But there are significant savings that are going to come about as a result of prospective payment.

Senator **Quayle**. Those savings that are going to come about in prospective payments still do not address the problem. If you are going to have that goal of $5.2 billion savings. the further implemention of the prospective payments system, as we know, will not reach that goal. I think you have got a good point as far as program stability and reliability. The hospitals that I have talked to, here, in Indiana, would like to see the program work its way out, and perhaps changing the rules of the game in the middle of the game is not an appropriate way to go.

---

[1] See p. 89.

But if we do not go that way, which I am not suggesting that we do—if we do not go that way, are there other devices that we can use to get that savings?

Mr. STELLA. Well, I would have to agree with Mr. Justice's statement, that basically, then, what you are in to is planned design. You just simply have to determine what type of Medicare health plan is going to be available to the Medicare recipient.

At some point in time, whether it is 1985, or it is 1995, the Congress is going to have to have a debate on what the national health care policy of this country is going to be, and once they have that debate, and they determine what the national health care policy is going to be in this country, then you, in essence, will have had the benefit design type debate. And this is exactly what private business, and other Indiana companies are doing, is as they try to lower their health care premiums, and as they try to lower their health care dollar costs, they are looking at benefit design. And they are looking at more reimbursement coming from the employee as well.

So it has to start there, basically, with the national health care policy debate.

INDIGENT CARE PROBLEM

Senator QUAYLE. One of the problems that has come up with the prospective reimbursement and this constant shifting and allocation of funds, is the indigent care problem, that we are seeing, particularly in some of our urban areas. This is a real burden on indigent care, and an increasing problem.

I wonder if you might both take a shot at that. First of all, is it a problem? Second of all, what kind of remedies, mechanisms, et cetera, do we have, that are potentially available to take care of this problem?

Mr. Stella, do you want to take a crack at that first, and then I will ask Mr. Justice.

Mr. STELLA. Well, as you are well aware, Senator, you and I have talked about indigent care in Indiana before. The situation in Indiana, simply, with indigent care, is that about 80 percent of the indigent care in Indiana is in three counties here in Indiana, Vanderberg, Marion, and Lake Counties. Unfortunately, I do not see Congress addressing the indigent care situation.

I see Congress actually reverting that back to individual States to deal with their indigent care problems, and certainly, as you are aware, the hospital association is aggressively working with the Indiana State Legislature to try to develop some solutions in that area.

I think until the budget deficit problem is resolved, we are not going to be able to look to Washington to find any solution for Indiana's indigent care problem.

Senator QUAYLE. Mr. Justice?

Mr. JUSTICE. I would agree. I do not believe that the indigent care problem can be solved federally at this point. Unfortunately, all of the other solutions for the indigent care problem—we deal in about nine States now, and most of the State remedies for that is to pass along the indigent care to the patient, the paying patient, in some manner, either as a taxation on the hospital bed as a hospital taxation on the revenue of the hospital, or merely as a shifting of that indigent care through the bad debt, to let the paying public absorb it.

Now that seems to be grossly unfair, and at some point will collapse the system, or develop it into a dual system, which will not be good for anyone. So although I do not believe that the Federal Government will deal with it, I believe that they ought to recognize that the problems that they are bringing on to the system are accelerating the problem of indigent care with no solution.

Senator **Quayle**. Mr. Stella, Mr. Justice, thank you very much.

Next, we have Mr. Charles Belt and Ms. Marsha Oliver.

Charles Belt, you are first on my list, vice chairman, Indiana State Legislative Committee of American Association of Retired Persons. So, please proceed at your pleasure.

STATEMENT OF CHARLES E. BELT, VICE CHAIRMAN, INDIANA STATE LEGISLATIVE COMMITTEE OF AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. **Belt**. Naturally, the American Association of Retired Persons has a very acute interest in the budget as it is being presented for the year of 1986. AARP has a membership of some 18 million members, with some percentage existing at, or near, the poverty level.

A much larger number of nonmembers at this economic level does exist. This causes our organization to become active in efforts to keep this budget level, fair and equitable for these, as well as the general population.

Older persons has the highest poverty rate of any adult age group, 14.1 percent. This rate has changed little since the late 1970's. The median household income of the elderly is only half that of the nonelderly.

Elderly women living alone experience a 33-percent poverty rate. The older persons spend a higher percentage of their budget on certain categories of medical care, and on necessities such as fuel and utilities. We must constantly remind the budget framers of these conditions.

OLDER PERSONS HAVE BORNE BURDEN

Older Americans have borne the burden of substantial amounts of budget reductions in the past 4 years. Over the course of fiscal years 1983–85, older persons have been asked to cough up almost $26 billion in the name of deficit reductions. The deepest of these cuts have come in the form of Social Security and Medicare reductions.

Cuts in Medicare, Medicaid, and other health programs have contributed almost $15 billion toward deficit reductions over this same period Older American have borne the burden of reductions in benefits, the Medicare hospital deductibles, physicians' deductibles, and premiums have all been increased.

The net effect of these increases and spiraling health care costs has meant that in the preceding 5 years, the hospital deductibles have doubled, the physician deductible almost doubled, coinsurance for physician care doubled, and excess charges from physicians tripled.

Over the period 1982–85, Social Security and other income security programs suffered combined reductions of $11.4 billion. In fact, as a result of the Social Security Amendments of 1983, and legislated reductions in 1981, Social Security benefits will have been cut $100 billion between 1982 and 1989.

Much has been said about the so-called middle class entitlements, often as a prelude to proposals to cut Social Security and Medicare. But who really benefits from most Social Security and Medicare? Not the wealthy. They draw only a fraction of their income from Social Security. The fact is that those who benefit most from the so-called middle class entitlements are the poorest and most vulnerable among us.

Because of this high degree of dependence on Social Security, any cuts to the program, or reduction in COLA's would have the harshest impact upon the most vulnerable members of our society.

Likewise, Medicare recipients are ill equipped to absorb further cuts in benefits or increases in their costs. Well over 80 percent of Medicare beneficiaries live in households with incomes under $25,000. Not only are those less fortunate more dependent on Social Security and Medicare, but also, the nature of the programs themselves focuses more on those with lower incomes.

Moreover, because middle- and upper-income older persons' tax payments support these and other programs, the net effect of the combined Federal spending and tax policies is quite progressive.

Preserving the concept of social insurance is central to protecting older Americans today and in the future. Not only do they focus benefits on those most needy, but because they are available to all, they enjoy broad public support.

One area on which we at AARP are firm in our conviction is the value and importance of the concept of social insurance.

OLDER PERSONS HAVE MAJOR STAKE IN DEBATE OVER DEFICIT

Older persons have a major stake in the debate over the deficit and how to reduce it. To ignore the deficit, to accept the status quo, threatens older persons just as much as some proposals to reduce it.

First of all, large and growing deficits threaten to sour the economy, thereby jeopardizing the Social Security and Medicare trust funds.

Second, a sour economy risks erosion of the elderlies' purchasing power.

Third, is the family concern: Simply put, our members do not want to see a huge debt passed to their children and grandchildren. But just as we are concerned that the deficit be reduced, we are also concerned about how it is done.

We know that with as large a portion of the budget directed at older persons, there will be some pain in a deficit reduction package. In evaluating any deficit reduction package, we will look, as we have in the past, at whether the overall package is both fair and effective.

To be fair, the package should: Recognize sacrifices already made by the elderly and others in previous budget reductions, ask future sacrifices only on those persons and corporations with sufficient income.

To be effective, AARP urges that the deficit be lowered by addressing the forces primarily responsible for the deficit. Specifically, we urge: Slowing the rate of growth in defense spending; restoring the revenue base eroded by excessses of the 1981 tax cut; promoting Federal and State efforts to reduce the rate of growth in health care costs—this can help reduce the deficit on both spending and revenue sides of the budget, as well as keep inflation down; and eliminating excesses in other Government programs and subsidies.

In order to reduce the deficit as rapidly and efficiently as possible, the association believes that there is room for further reductions in domestic spending, without further cuts in the benefits of Human Service Programs.

I have little idea, personally, the extent of military buildup needed to protect this country. I have little idea to what extent our adversaries can extend their economies to either defend or proliferate expansive ambitions. However, I do know there has to be a more somber, sounder, realistic way for mankind to live on this planet, other than complete devastation of our resources, or complete annihilation of our people.

I feel certain that the majority of the American people agree with this. We must find the men in these several countries, that hold the ambitions of gaining peaceful accord with their fellowman as a most sacred trust. We must find the men in these countries that have the abilities, when added to their desires, can achieve these goals without failure. The alternatives of a bankrupt nation with a dying society is completely unacceptable. Now is the critical hour, when we, as a country, must make the ultimate decision. Which way shall we go? Thank you.

Senator QUAYLE. Thank you, Mr. Belt. Ms. Oliver, it is good to see you again.

Ms. OLIVER. Good to see you.

Senator QUAYLE. Go ahead, and proceed at your pleasure.

STATEMENT OF MARSHA M. OLIVER, PRESIDENT, INDIANAPOLIS PRIVATE INDUSTRY COUNCIL, INDIANAPOLIS, IN

Ms. OLIVER. Thank you, Senator. I am very grateful to you, to have been asked to testify before this group, to express our concerns about the 1986 Federal budget.

Naturally, since the Indianapolis Private Industry Council is responsible for administering Federal job training funds in a city where an estimated 80,000 economically disadvantaged and unemployed people live, we are most concerned about the possibility of any further budget cuts, which would impact our services to those people.

We also trust, that since the Senator authored the legislation which makes the services we offer possible, he is the best possible defender we could have in Washington when the ax begins to fall.

Senator Quayle, we do not intend to make a difficult job impossible by suggesting more money be allocated to employment and training.

HOLD FUNDING LEVELS STEADY

We would, however, strongly urge that funding levels be held steady at the 1984 levels. Allowing for inflation and other factors, we would still be looking at a decrease of at least 6 percent in the amount we can spend to make people employable. As we see it, there are several areas where JTPA funds are at risk. First, the Summer Jobs Training Program for young people. In 1984, Congress decided to appropriate $100 million that had originally been cut from a Summer Jobs Program. It came very late in the season, July 1984 in fact, and we here in Indianapolis had to hustle to incorporate that additional resource of an additional $1.3 million, what it could buy. But when it came to deciding whether we could put 2,000 youngsters to work, or 2,600 to work, there was no decision to make.

With minority youth unemployment above forty percent, you do not say, "Sorry. We have the money but we cannot confuse our system with the bureaucracy it would take to implement this program."

It may have taken our staff, working 18 hours a day, to get the job done, but those young people had jobs last summer. I ask you to consider the alternatives, if we turn away 600 extra kids, whom we have the potential to serve.

I would wager the cost to the Government and the taxpayer for having 600 unemployed teens, with nothing to do for the summer, would far exceed Indianapolis's portion of the supplemental appropriation, making the President and Congress aware, that money spent on Summer Jobs Programs for youth has more than the obvious social values, but economic value as well, is a case we, here in Indianapolis would like to make.

In 1984, Partners Two Thousand, our Summer Youth Program employed almost 2600 young people, and that meant $2.6 million payroll dollars were contributed to the household incomes of poor families, and eventually, to the local economy.

Local employers were the recipients of over 665,600 manhours of economical labor. We touted that it cost $99 to hire a kid this summer. Out of the 2600 youngsters, only nine were terminated from the program for unlawful behavior, thus affirming the belief that if kids are working they do not have time to get in to trouble.

We had 701 young people hired by the private sector. Of those, 154 on-the-job-training contracts, where we paid 50 percent of their salaries during the summer, was paid. Five hundred and forty-four were TJTC eligible, therefore showing that with the remaining three nonreimbursable, nonsubsidized jobs, that the employing community, the private sector, does need some kind of inducement to hire these young people.

$100 MILLION REDUCTION ANTICIPATED

Next, I want to call your attention to the anticipated reduction of $100 million under title III of JTPA, which I know personally is something that you have pleaded through and worked for all through the job training partnership development process. These dollars, $222 million, were set aside for special projects, such as retraining workers affected by mass layoffs and plant closings. Reasons for the cuts—funds were so underspent in program year 1984, that it was obvious they were not needed. What really happened was, during that so-called transition period, was that the funds were available, but every SDA, and especially here in Indianapolis, and across the country, we were in the process of adjusting to an entirely new system.

We were transitioning from CETA to JTPA. However, American industry was going through a tremendous upheaval that had left over 10 million people unemployed. By being underspent under title III, are we saying that we were wrong, that we do not need a dislocated worker program? I doubt that. People do need retraining.

Are these people re-entering the work force without our, or the Government's assistance? And if they are going back to work, what is the wage disparity between what they used to earn and what they now earn?

If you accept the fact, as I do, that family incomes have suffered tremendous drops, what kind of strain do you suppose that puts on a city's entire economic support system?

Ladies and gentlemen, and Senator Quayle, I suggest that if Congress feels justified in cutting title III funds by $100 million, then they should honor a bona fide request for these dollars, when they do come through.

My point is, it is difficult to access the discretionary money, and if we could have the flexibility to use the unexpended money for poor people, we could better serve the disadvantaged and the dislocated worker.

ALLOCATION OF JTPA FUNDS

Lastly, a word about the allocation of JTPA funds in general, and the performance guidelines in particular. The rather arbitrary requirement that 40 percent of this SDA money be spent on young people under 22 years of age, has little to do with the percentage of young people in our eligible population.

In Marion County, for example, there are eighty thousand economically disadvantaged people. Eight out of ten are over 21 years of age. That says we have to spend 40 percent of the money on 20 percent of the eligible population.

We all agree that targeting youth is important but turning away a 26-year-old mother of two from a program that could give her skills to be self-supporting, in favor of a candidate who is under 21, is far from uncommon, and there is no amount of creative programming that is going to help the situation, given this requirement.

If you have money enough to serve 2,000 people, and 8,000 of them must be kids, and there are four times as many adults applying for your programs, what do you think happens?

Now performance standards. To begin with, standards is a complete misnomer. It implies one has a stationery target to shoot for, and nothing could be further from the truth. Just take an example: the national unit cost for entered employment. A goal was set of around $5,700 per person for the first 9 months of JPTA. SDA's were advised that actual performance during the transition period would not become a standard because, as everyone knows, 9 months of data is hardly sufficient time to establish a benchmark.

In the last month, it was changed. Now the 9 month performance will determine future performance standards. In their enthusiasm, SDA's across the country, Indianapolis among them, deliberately kept costs down during the trial period to about $4,000.

That phenomenon happened all across the country. Now we are faced with the pressure for fast placements, and that has cheapened the quality of training. We run into danger of turning JTPA into an expensive placement service rather than a training program, and then we will see a program that screams. Again, I appreciate the opportunity to address this committee, and to you, Senator Quayle, to give you my input. I will be more than glad to take any questions.

POVERTY RATE LOWER

Senator **Quayle**. Thank you very much. Mr. Belt, did you see this report last week, that came out of the Council of Economic Advisers for the President, that indicated that in 1983 the poverty rate for those over 65 was now lower than the rest of the population for the first time in history?

Mr. **Belt**. No. I did not see that.

Senator **Quayle**. OK. I assume that it is accurate. I have a Washington Post article here, that we might be able to send you a copy of it.

Mr. **Belt**. I would appreciate having it.

Senator **Quayle**. It shows that in 1983, for the first time, that the poverty rate for those over 65 was lower than the rest. It says in 1983, the poverty rate for the entire population was 14.1 percent, for the elderly population, compared to 15.4 population for younger Americans, including those under 24.

A question I have for you, as we talk about the deficit, and I certainly support what you are saying as far as the Social Security, and the social concerns, that people have worked hard for it, they have invested in it, and the benefits, by and large, should not be tampered with. And I also agree with you, that high deficits, impact older Americans, that it has very much of an impact on them, particularly many of them that are on fixed incomes. Any increases in basic necessities, whether it is utility costs, or food, or housing, whatever, is going to hurt them the most.

We also are searching for ways to make the cuts fair and equitable. You talked about the cuts that have been taken in the past.

I think that a "sacred cow" is the Social Security benefits. I do not think that there is any doubt about it. I wonder, would you add to that category, COLA adjustments to Social Security are COLA's a "sacred cow"? Or can we discuss what the COLA adjustments should be.

There has been all sorts of talk out there. Some have talked about freezing COLA adjustments for a year. You know, we did it for 6 months at a time. Others are talking about, which would probably be a more equitable way, that you might look at the so-called CPI minus 3. There is certainly a group out there that needs some sort of adjustment to keep up with inflation and we do not want them to fall through the cracks.

On the issue of COLA's, I wonder, is this something that you feel that we can legitimately discuss, or should this sort of be shelved over there with the benefits as well? I think the benefits, it is fair to say, are a "sacred cow" and they are not going to be touched.

ANY ACTION TAKEN ON COLA'S SHOULD BE TEMPORARY

Mr. **Belt**. I, certainly, think there is considerable turmoil in the economic system picture at the present time, and I think most everything should be put on the table to look at, including the COLA's. However, if the COLA's are denied to a big segment of our people—that is, the people who are on fixed incomes, they are going to be hurting. I do not know, I cannot give you the percentage, or break that down in to percentages, as to the total number that are drawing Social Security, and the number that are very close to the poverty line, but there is that group and it is a rather large group of people.

If you look at the COLA's, I think you are going to have to keep this in mind. There are some segments, maybe of the older people, that could withstand the doing away with the COLA's for a period of time. But I think that any action taken on the COLA's should be on a temporary basis until—somewhat like the freeze that you have mentioned several times, I noticed this morning. I think any kind of a freeze should be of a most temporary nature, whereby you might get a better picture of what the situation would be 12, 15, 18 months down the road.

But we feel that the COLA's are an essential part of the Social Security Program, and if the inflation rate does start to climb, the COLA's are most important.

Senator **Quayle**. Yes; that is why, we may consider CPI-3. If we get back to 6 percent inflation, under this proposal COLA's would still be 3 percent.

Some of the so-called experts in Washington just do not feel that this inflation is going to happen, but if it does——

Mr. **Belt**. To our way of thinking, the thing that has caused so many people to be very much concerned, and uncertain about what is going to be, is the amount of money that is being brought in to this country from foreign investors and the price of the dollar. Of course, that is what is attracting them. And if the price of the dollar should suddenly start to drop, I think those investors would pull their money out.

If they pull their money out, no doubt, the Government would have to turn to the people of this country to borrow the money, and the interest rates would immediately go sky high.

This situation is what is talked among an awful lot of people, and it makes them fearful.

MEANS TESTING SOCIAL SECURITY OPPOSED

Senator **Quayle**. One other question I have for you and Ms. Oliver. This morning—I forget who it was—somebody mentioned that we ought to means test Social Security. What are your thoughts on that?

Mr. **Belt**. Very opposed to it! Completely. Completely and entirely!

Senator **Quayle**. Completely opposed to it?

Mr. **Belt**. Right.

Senator **Quayle**. Why is that? Because of the basic concept that this was retirement income and it would become a general welfare——

Mr. **Belt**. The basic concept is the big thing. That is right. It is not a welfare program and if you make a means testing arrangement with it, then it becomes a welfare program, and we do not like any part of it.

Senator **Quayle**. I presume you would say the same thing about Medicare, too?

Mr. **Belt**. Yes.

Senator **Quayle**. OK. Thank you. Ms. Oliver, we have chatted before on this "creaming" issue, and I can assure you that we will continue to take a close examination of it. But you know, you have mentioned, and Mayor Hudnut this morning also mentioned, the 2,000 economically disadvantaged young people in your program, and that it was a major effort that we had in the private sector. It shows the kind of response you can get.

Ms. **Oliver**. Yes.

Senator **Quayle**. In the President's budget, title II is basically frozen, but as you point out, title III is looking at $100 million reduction. Another thing that is sort of out of your baleywick, but is on the chopping block, at least as administration, is the Job Corps.

Ms. **Oliver**. Yes.

JOB CORPS ELIMINATION

Senator **Quayle**. Job Corps has been scheduled for elimination. If in fact Job Corps would be eliminated—I think it is about $600 million; If that would be eliminated do you think that there could be a tradeoff, that we would take a lot of those savings and put it in to title II of JTPA, and we might be able to serve that economically disadvantaged youth?

Ms. **Oliver**. Yes.

Senator **Quayle**. The Job Corps is also fairly similar to what title II recipient funds, at least the youth set aside of title II.

I wonder if this might be a fair tradeoff—if you would like to hazard a response to that?

Ms. **Oliver**. Well, Senator, our experience in having worked with Job Corps is virtually none. However, I would be willing to say that the constituency that Job Corps has been working with, basically, is a constituency that we are not working with under JTPA simply because of funding. The reality is, it is going to take a lot more money to remediate, and to bring that person up to an employable level than what our current performance standards allow. Yes; I think certainly, under title II, if we were to enhance that, and to provide the flexibility of the States to come in with some adjustments for serving those seriously disadvantaged, problemmatic young people, we could do something with those young people, because they have very similar problems as our standard constituent.

However, as Job Corps is currently structured with the residential impact, far be it for me to suggest we do that. While we have had some innovative kinds of programs that we are currently doing in Marion County. We have with Steve Goldsmith a program that has felons, that are now going to another county. I will not name that county at this point in time, but another county, where they are kept, and they are given counseling and remediation, not to the tune that we are talking about with Job Corps, but certainly for a short period of time. And we are going to find out what kind of experience we are having.

These are for ex-offenders. These are felons that have had two serious offenses. So, it is very similar, in some degree. The challenge with Job Corps, as I understand it, and meeting the needs of those young people, is taking them out of their environment, which has been proven to be somewhat successful. So, then we would have to come up with some programmatic, some programs that would meet that challenge, and supplement that somehow. However, not knowing what the prior success of the program was, or some of the problems with the program, I would not be willing to say that we want to continue in that vein, however.

We might want to do something totally inventive, and creative, and do it entirely differently.

NO COMMUNICATION WITH JOB CORPS

Senator **Quayle**. What is your present communication and working relationship with Job Corps?

Ms. **Oliver**. None.

Senator **Quayle**. It is none?

Ms. **Oliver**. None, virtually none. We do not get referrals from the Job Corps, Camp Atterberry, to our programs as young people come out, which would indicate, right there, I think, from an administrative standpoint, that that is a waste.

We are not getting those Marion County residents back in to the normal string of things, as they are ready to come back in to the community. They are not coming to our doors, and I can speak very adamantly about that because I have checked in to that and we just do not get them.

So, that is a waste, right there, when you have got a program that is funded to the tune, and they are not working with us in conjunction, whatsoever. No coordination.

Senator **Quayle**. Yes; and yet the goals are——

Ms. **Oliver**. The goals are virtually the same. There is one employer market, as you know, Senator, and when you are out looking for jobs, and you are looking in your local community, you have got to be concerned about who is buying the product, and if we are controlling, conceivably, the employing market, and we are the contact with those employers, then regardless of who the program is operated by, or who it is funded by, or whether it is a program that has a direct tie-in to some other national program, we have to be concerned about that employee market, and we do not get feedback from employers as to what they are getting from Job Corps, either.

Senator QUAYLE. OK. Miss Oliver, Mr. Belt, thank you very much.

The next panel consists of Mr. Lou Gerig, Mr. Arthur Graham, and Mr. Marion Stackhouse.

First on my list is the chairman of the board of directors, of the Indianapolis Public Transportation Corp. You may proceed at your pleasure.

STATEMENT OF LOUIS E. GERIG, CHAIRMAN, BOARD OF DIRECTORS, INDIANAPOLIS PUBLIC TRANSPORTATION CORP., INDIANAPOLIS, IN

Mr. GERIG. Thank you, Senator. Having been on the other side of these a few times, I will be brief.

Senator QUAYLE. That would be appreciated.

Mr. GERIG. The question you asked was, what would the proposed budget cuts have to do with the Metro budget. First of all, it would reduce our service by 62.5 percent. This translates into discontinuing all service on Saturday, Sunday, and weekday evenings. Also, all 15 express and 21 local routes would be stopped, leaving only 13 routes operating.

Metro would have to increase fares by 40 cents, or a 66-percent increase. We now charge a regular fare of 60 cents, and it would go to $1. These two items would mean a loss of 60 percent of our riders who depend on Metro. Metro would have to eliminate all special services for the handicapped and elderly. The Metro work force would be reduced by 45 percent, which translates into an income loss of $4.7 million. We now have, presently, 204 buses. We would lose 126 during our peak hours. That would make us 78 buses.

I think one of the questions that you need to ask us, and I am prepared to answer is, what suggestions would Metro have in reducing the Federal budget in our area?

I think what we are interested in is allowing our local boards the discretion on how money is spent. We presently have section 9 of the Transportation Department, and the act which funds Metro, and section 9 basically allows us to spend money for operating assistance and capital assistance.

The Federal Government forces us to basically go out and purchase new equipment because a capital expenditure is unlimited. The operating expense has a cap. With the new budget requests, it would eliminate all operating expense and would allow us still to have capital grants. So the good news is we can buy buses, but the bad news is, we do not have anybody that can run them.

I thank you very much for inviting me here to speak.

Senator QUAYLE. Thank you.

[The prepared statement of Mr. Gerig follows:]

Statement of Louis E. Gerig
Chairman of Public Transportation Corporation
Submitted to United States Senator
Daniel Quayle
Senate Budget Committee, Field Hearing - Indianapolis
Indiana, February 11, 1985

I'm Lou Gerig, Vice-President of Merchants National Bank and Chairman of the Board of the Indianapolis Public Transportation Corporation.

I'm here at your invitation to address the effect of the proposed transit budget cuts on the system in Indianapolis.

As a businessman, I see that the chief concern among the business community is the size of the federal deficit. It is entirely too large and only bold decisive action from Congress and the President will resolve this problem.

As a former staff member with President Reagan and Senator Lugar, I am well aware of those people who say "cut the federal budget," but in the next breath say "but don't take away my subsidy."

But today I'm here to tell you what the proposed budget cuts would do to the Metro budget. Enclosed you will find a fact sheet that will quickly show the effects.

1. Metro would have to reduce service by 62.5%. This translates into discontinuing all service on Saturday, Sunday, and weekday evenings. Also, all 15 express and 21 local routes would be stopped, leaving only 13 routes operating.
2. Metro would have to increase fares by 40¢. Reducing service and increasing fares would mean a loss of 60% of the riders who depend on Metro.

3. Metro would have to eliminate all special services for handicapped and elderly.
4. The Metro work force would be reduced by 45% which translates into an income loss of 4.7 million dollars.

Needless to say, the proposed cuts, if approved, would have a drastic effect on Metro.

In 1972, Congress enacted legislation to aid the transit industry by creating the Urban Mass Transportation Administration. In 1972, Congress authorized federal operating assistance to create a partnership with state and local governments to assure adequate service to people in the cities and towns of our country, to provide for more fuel efficiency and to resolve congestion and air pollution which many of our cities, including cities in Indiana, now face.

Low fares were encouraged to boost ridership. New bus fleets were ordered. New garage facilities were financed and, in many cities, have been constructed. In Indianapolis, Muncie, and Gary, new garage facilities are under construction at this moment.

For the federal government to now withdraw from the partnership that was organized and orchestrated just ten years ago would be counterproductive.

The question we must ask is why do we need mass transportation? The answer is that public transportation:

1. reduces energy costs;
2. reduces pollution;
3. provides a means of transportation for those who don't have cars to get to their places of employment.

But, Senator, you probably are asking what suggestions would Metro make in reducing the budget?

The main one is to allow local boards discretion on how to best use federal funds. Presently Section Nine of the Transportation Act is a major source for both operating and capital expenditures. The feds put a cap on operating in 1982, but there is no cap on capital purchases. This encourages purchasing costly new equipment while not going the less expensive route of maintaining what we have.

Government regulations force us to make decisions that later cost the federal government and the taxpayers more. In 1975 the low bidder for 60 buses was AM General. The buses were supposed to have a life of 12 years. However, because of the poor quality, they had a life of only nine years, so now we are having to replace those 60 buses with higher cost equipment. The second bidder was higher by only $9,900, or $165 per bus. The regulation of selecting the low bidder cost the federal government $900,000.

Last, Metro is continuing to search for ways to increase revenues and offer better service. But, with the possibility of losing over 60% of our system, the future of transportation in Indianapolis looks bleak.

Thank you, Senator, for allowing me to appear before your committee.

CURRENT BUDGET	PROPOSED BUDGET
1. RIDERSHIP 15.5 million	RIDERSHIP 6.2 million
2. SERVICE MILES 6.5 million	SERVICE MILES 2.4 million
3. EMPLOYEES 504	EMPLOYEES 279
4. EMPLOYEE SALARIES $10.7 million	EMPLOYEE SALARIES $6 million
5. EMPLOYEE TAXES PAID (FED & FICA) $3,161,500	EMPLOYEE TAXES PAID (FED & FICA) $1,580,750
6. NUMBER OF BUSES 204	NUMBER OF BUSES 78
7. NUMBER OF ROUTES 49	NUMBER OF ROUTES 13

Senator QUAYLE. Mr. Graham, executive vice president, Indiana Highways for Progress.

STATEMENT OF ARTHUR E. GRAHAM, EXECUTIVE VICE PRESIDENT, INDIANA HIGHWAYS FOR PROGRESS, INC., INDIANAPOLIS, IN

Mr. GRAHAM. Thank you, Senator. I appreciate the invitation to speak. I will be discussing both highways and construction because I also an editor of "Construction Digest Magazine," which is a public works construction magazine serving Indiana and four other Midwestern States.

Construction, along with agriculture, are the nation's two largest industries. Construction provided about $210 billion in direct capital investment last year, including over $5 billion in Indiana. It generated about 8.4 percent of the Nation's GNP. It was in effect a comeback year for construction, not exceptional by historic or inflation-factored standards, but a much better year than 1982 and 1983.

PUBLIC WORKS SPENDING DECLINES

This recovery had two worrisome qualities for the industry. For one thing, virtually all of the gain came from the private sector. Except for road-building activity, public works spending was either stagnant or declining. As you know, the Federal Aid to Highway Program is also about to hit the wall because of inaction on the interstate cost estimate, so that program is in serious trouble.

Public works represented less than 18 percent of last year's total construction market. That is the lowest percentage in 37 years. This largely reflects reduced Federal involvement in public works activity. Federal works spending on public works and construction programs have declined, in aggregate, about 20 percent in the last 5 years.

So, concern about the nation's decaying infrastructure is obviously losing some of its priority consideration in Washington. Exactly how big this problem is, is very difficult to assess. It is probably some place between the Congressional Budget Office's estimate of $430 billion, as the needs, and the Associated General Contractors' figure indicating that the current backlog may be as much as $1 trillion.

These are very real needs. They pose a very tangible threat to the long-range economic growth of the country. The problem is, they have been neglected for so long, that it is difficult to convince anybody of their urgency. I think there is one misconception, that the Federal Government has always been the principal financier of our major public works programs.

This has never been the case, and it is much less true today than it was 5 or 10 years ago. The fact is that the Federal Government has systematically been divesting itself of cost responsibility for rebuilding America's public works, and now we read about proposed additional cutbacks ranging up to $30 billion in these programs over the next 3 years. It is our feeling that good interstate and arterial highways, clean water, conservation of our water and land resources, and an efficient inland waterway navigation system, and better and more deep water ports are just as much a matter of national concern today as they were 5, or 10, or 20 years ago.

RECOVERY IS TENUOUS

I think the other troublesome thing about the recovery, is that it is very tenuous. Profit margins in the construction industry, across the board, contractors, suppliers and manufacturers, are still very low or nonexistent.

Business failures in the industry are far above the national average. Unemployment in construction remains above 14 percent in Indiana, and pretty much at that same level throughout most of the rest of the country.

Wage settlements last year in the industry were 0.4 percent in first-year wage and fringe gains, which is the smallest increase in 40 years.

We have lost a number of major companies in Indiana, just in the past year or two. The R.L. Shute Co. in Indianapolis, which was the State's largest roadbuilding contracting firm, went out of business. The Rogers Group in Bloomington, which was one of our bigger highway contractors, closed their entire highway operations last fall. We have lost a number of others, and the words we get when we talk to these people, it is fairly consistent. The highway contracting industry is, by nature, a very high risk and cyclical industry. It is subject to "now you see it, now you don't" funding, and has been for many, many years, and these people tell us that it is simply no longer worth the fuss and the frustration, and the problems that go with it. And our concern is that we could be losing the nucleus of this industry, if we suffer any further major cutbacks.

We certainly do not take issue with the argument that the current, and the projected deficits are the Nation's most critical short-term problem, but we would like for the Congress to take into consideration the long-range economic and tax revenue effects of any major additional cutbacks in public works activity.

We find it a little bit disconcerting, for example, that the Senate Environment and Public Works Committee is already proposing a $500 million cutback in next year's highway program, and this comes at a time when Congress has yet to resolve the Interstate Cost Estimate dilemma, which is withholding $7 billion, including $130 million from Indiana's program.

And this is merely sort of the latest episode of a series of impoundments and delays, and deferrals that this highway program has suffered. I think it would be impossible to calculate how many billions of dollars these tactics have cost the taxpayer, and how many contractors they have driven up the tree or out of business.

LARGE GASOLINE TAX OPPOSED

We hear some talk, actually—and perhaps you would like to comment about this, Senator—but at least we read about very large increases in the gasoline tax, ranging up perhaps to 30 or 40 cents, as a possible means of generating additional revenue to do something about the budget deficit.

I hope that Congress is not considering that, but as I say, we have read about it. That of course would be a grossly unfair and repressive tax. It is the low- and middle-income families, that by force of circumstance, rely on the gas-guzzler automobiles to get to work and for their other essential transportation.

And of course it would also dry up the major source of revenue for State and local government to take care of their roads and streets, at the same that the Federal Government is asking them to assume more responsibility in this area.

So, I think, in conclusion, our major point is, if in fact we are going to freeze a number of these programs, or cut them back, if we are going to freeze the Federal Highway Program at $13.25 billion, or if we are going to cut that back another $500 million, as the Senate is proposing, well and good, if this is at the wisdom of the Congress, if this is what we can contribute as an industry, to an effort to get the deficit a little bit more in line.

Our key point would be, if in fact this is done, is make that money available on schedule. If in fact next year we go through the same business of having half of that money withheld indefinitely, then I think the industry could suffer very, very seriously, and we would be running the risk of losing the nucleus of a very important industry. Thank you.

Senator **Quayle**. Thank you, Mr. Graham.

[The prepared statement of Mr. Graham follows:]

Indiana Highways for Progress, Inc.
7355 Woodland Drive, P.O. Box 603, Indianapolis, Indiana 46206 · 317/291-4476

STATEMENT OF

ARTHUR E. GRAHAM

FOR

INDIANA HIGHWAYS FOR PROGRESS, INC.

SUBMITTED TO THE

SENATE BUDGET COMMITTEE

AT THE REQUEST OF

SENATOR DAN QUAYLE

FEBRUARY 11, 1985

My name is Arthur E. Graham. I am senior editor of Construction Digest, a regional construction and public works magazine serving Indiana and four other midwestern states. I also serve as executive vice president of Indiana Highways for Progress, Inc., the state's good roads organization.

There was about $210 billion in on-site construction expenditures in the U.S. during 1984, including more than $5 billion in Indiana. Total construction spending accounted for 8.4 percent of the Gross National Product. It was a turnabout year for the industry. Nothing exceptional by historical, inflation-factored standards. But much better than 1983.

Virtually all of last year's increase in construction activity was in the private sector. Public works outlays represented only 18 percent of the market, a decline of five percent from the mid-1970s. This, in turn, largely reflects reduced federal public works funding.

Federal infrastructure spending has not contributed to the outsized budget deficits, or to the "bloated federal establishment." On the contrary, had all government spending followed the pattern of federally assisted public works and construction programs during the past five years---these expenditures were reduced, in aggregate, about 20 percent---there would be no budget deficit.

Any further cutbacks in federal public works investment, or any tax changes that hamstring construction and erode efforts to rebuild America's industrial capacity and infrastructure would, in our opinion, be shortsighted and self-defeating. Budget benefits would be modest, and probably temporary. And the adverse impact on future economic growth---and on the tax revenue this growth generates---could be immense.

Construction's recovery is precarious. Profit margins remain slim, or nonexistent. Business failures at all levels---contractors, suppliers and manufacturers---are frequent, and well above the national average. Unemployment in the industry remains above 14 percent in Indiana, and the same holds true for many other parts of the country. Construction wage settlements in 1984 averaged only 0.4 percent in first-year wage/fringe gains, the smallest increase in 40 years.

It wouldn't take much of a nudge to put construction on the downtrack again. This is what concerns the industry, and it is something that should be taken into consideration when Congress deliberates spending cuts and tax revisions that could tilt this balance.

There is a general misconception that the federal government is the principal financier of all major public works programs, that it has overstepped its partnership responsibilities with state and local government, and that further disengagement is advisable and justified. We disagree with both the premise and the conclusion.

At the peak of its involvement in the highway and clean water programs, federal participation never exceeded 35 percent. It is substantially less than that now. The federal commitment to highway construction and rehabilitation did take a positive turn with the 1982 Surface Transportation Assistance Act. But this was the first significant expansion of the program in two decades, and the gains are now being nullified by Congressional inaction on the Interstate Cost Estimate which is keeping more than $7 billion in federal-aid road funds impounded, including $130 million due Indiana.

The Environmental Protection Agency's wastewater treatment construction grants topped out at $5 billion in the mid-1970s. Appropriations had been reduced to $3.4 billion by fiscal 1980, and since that time they have declined another 29 percent to $2.4 billion annually. And, as of last October 1, the federal share of project costs was reduced from 75 to 55 percent.

Farmers Home Administration grants and loans for its rural water supply and sewer construction programs have been cut 55 percent in the past five years, from $990 million to $455 million. The Economic Development Administration's funding for water projects, which totaled $582 million in 1980, has now been eliminated.

In total, clean water spending by these three federal agencies has been reduced $2.21 billion, or 44 percent, in the last five years.

Capital outlays by the Army Corps of Engineers for waterway navigation, flood control and multipurpose dams fell from $2.1 billion to $1.2 billion---43 percent---between 1977 and 1983. This spending is still declining, and no new major project starts have been authorized since 1976.

Other programs which have supplemented and stimulated local public works investment have undergone similar reductions. General Revenue Sharing has been trimmed from $6.3 billion to less than $4.6 billion since 1981. And there have been cutbacks totaling $535 million annually in the Urban Development Action and Community Development block grant programs.

The share of the GNP devoted to capital investment in public works has dropped from 4.1 percent in 1965 to about 2 percent. And, as a share of all federal spending, federal grants to state and local governments declined from 16.9 percent in 1979 to only 11.6 percent in 1984.

What becomes apparent is that, prior to and during those years when budget deficits were escalating, the federal government was already systematically divesting itself of much of its limited cost responsibility for rebuilding America's public works. Magnifying the impact of this withdrawal is a 60 percent increase in construction costs in the last seven years.

We certainly don't take issue with the argument that current and projected budget deficits are the nation's most critical short-term problem. Their detrimental effects are at least as serious for the construction industry as for any other segment of the economy.

It also can be argued that accumulated infrastructure needs pose an equally serious threat, albeit longer term, to economic growth. These needs are very real but, unfortunately, they have been neglected for so long that it is difficult to convince anyone of their immediacy.

On the other hand, any further choking off of necessary construction investment could have an immediate, adverse economic impact.

We read about proposed additional cutbacks and/or freezes that would reduce federal public works and construction investment by anywhere from $14 billion to $30 billion during the next three years.

There are also suggested tax changes---elimination of the completed contract method of accounting in construction, much longer depreciation schedules for investment and rehabilitation tax credits and the accelerated cost recovery system, and tight restrictions on interest-free municipal bonds---which could tend to stymie construction activity.

One hopes the criteria for any of these proposals will be whether near-future economic/tax revenue losses could quickly outweigh any up-front budget benefits.

Rather than any additional federal construction cutbacks, our position would be to favor a freeze on program spending at current levels, plus user fees, to reduce and recover future construction costs.

When we talk about equitable, "across-the-board" spending cuts, we shouldn't lose sight of the fact that entitlement and defense outlays were increasing 90 percent---$545 billion since fiscal 1980---at the same time that virtually all federal public works spending was already being substantially reduced.

One exception was the highway program. And, even before the latest withholding, this program had been subjected to an endless series of delayed apportionments, impoundments and moratoriums. It would be impossible to calculate how many billions of tax dollars these tactics have wasted, or how many contractors were driven up the tree or out of business as a consequence.

For this reason, we find it disheartening for the Senate Environment and Public Works Committee to be voting a $500 million reduction in the highway program's fiscal 1986 obligation limit when Congress has yet to resolve the ICE dilemma that is freezing $7 billion in highway funds scheduled for release during the past two years.

If nothing else, we would hope that Congress can sustain and stabilize major public works funding for a reasonable period of time. Lacking this, state and local agencies and the construction industry will still find it impossible to carry out these programs in an efficient, businesslike manner.

We also need to inventory the nation's major public works facilities, as has been done for five years with bridges, so that informed decisions can be made regarding future investment priorities and federal involvement.

In the meantime, it seems to us that maintenance and improvement of Interstate and arterial highways is no less an economic and national defense priority than was the construction of this system.

Clean water is no less a matter of national public concern than it was 10 years ago.

The need for an efficiently functioning inland waterway system and for more and better deep-water ports is more critical now than ever before.

Conservation of our water and land resources isn't a diminishing problem. It is a matter of direct national interest, and it is becoming more serious day by day.

If the federal government's role in these and other key programs is eventually to be reduced to little more than monitoring and policing, then we can confidently predict that, in the not-too-distant future, the United States' infrastructure problems will truly be a national crisis.

Senator QUAYLE. Mr. Marion Stackhouse is the president of the Indiana State Farm Bureau.

STATEMENT OF MARION STACKHOUSE, PRESIDENT, INDIANA FARM BUREAU, INC., INDIANAPOLIS, IN

Mr. STACKHOUSE. Thank you, Senator. I am Marion Stackhouse, president of the Farm Bureau, and I will read my statement because I think it is shorter than if I ad lib a little bit.

Many farmers across this State are in serious financial difficulty. We appreciate your recognition of this problem by asking the Farm Bureau to present our ideas to help put agriculture back in to the mainstream of our economy.

If we are unable to make a profit in agriculture, we will see the effects of what farmers are going through today, very soon in other industries that farmer support.

LOWER TAXES AND INTEREST RATES WOULD HELP FARMERS

We have asked our general assembly, here, in Indiana, to not pass any laws that would add to the farmers' costs at this time. We make this same request to the Federal Government. Nothing would help farmers today more than lower taxes and lower interest rates.

The Farm Bureau, since 1981, has called for a freeze of all Government spending at the previous year's appropriation level with the exception of interest on the national debt, until the budget deficit can be eliminated.

Raising taxes is not the answer to reducing the deficit unless Congress is willing to earmark any increase for that specific purpose. We will support a freeze and fix program to reform all Federal entitlement programs. A 3-year freeze should be implemented on all cost-of-living adjustments. If Congress does not fix the entitlement programs within the 3-year period, the freeze would continue until Congress accomplishes the necessary reforms.

We support legislative or constitutional changes to give the President line item veto power in appropriation bills.

The Farm Bureau will support a constitutional amendment to restrict all the spending authority of the Federal Government to a realistic percentage of the gross national product.

Off-budget Federal outlays, including Federal credit programs, should be brought on budget as direct Federal outlays.

Recognizing that a significant portion of Federal spending is incurred through Government contracts, competitive bidding should be encouraged and the use of cost plus contracts should be minimized.

For every $50 billion reduction in spending by the Federal Government will bring interest rates down 1 percent, and each 1-percent reduction in interest rates means $2 billion, additional net farm income to farmers.

NEW TAX COULD NOT BE TOLERATED

Regarding taxes, as I commented at the beginning, any new taxes on farmers just simply cannot be tolerated at this time. We fully support reductions in tax rates and income tax indexing. A 10-year carryforward for disaster losses, and elimination of the imputed interest rate provisions of the Internal Revenue Code. We oppose a freeze or cap on scheduled tax cuts, the taxing of interest income as it accrues, and the use of agricultural land as a long-term tax shelter investment by pension or profit-sharing funds.

We have heard the Congress, on many occasions, express concern about the declining number of family farms. As the major organization representing those farmers, we want Congress to know that failure to reduce the deficit and lower taxes will do nothing but hasten the decline of family-owned operations. And I thank you. I will be glad to answer questions.

Senator QUAYLE. Thank you very much, Mr. Stackhouse. Mr. Gerig, would you prefer the Congress to continue the subsidy and do away with the capital reimbursement? Would that be a fair tradeoff?

Mr. GERIG. Well, larger systems would rather have the capital outlays and Indianapolis would rather have the operating expenses. I think a tradeoff would be that if you are going to give us the money in section 9, which now you give us but you say we can only spend so much for operating, and unlimited for capital, or the rest for capital—if you allow us to determine how that money should be spent, we can still take the cut in that section 9, but by determining our own future and fate, that we can use the dollar a lot wiser.

Senator QUAYLE. In other words, you would like to be able to basically commingle the funds between capital expenditures and operations subsidies?

Mr. GERIG. Right. And make a decision.

Senator QUAYLE. And right now, if funds are given for an operations subsidy, that is where they stay, in that category?

Mr. GERIG. That is right. And under the budget plans, the operating would be totally cut, and all we would have would be capital expenditures in section 9.

Senator QUAYLE. Yes. Do you ever see a day down the road, where there will not be a request, or that these transportation systems will be self-sufficient? Or are we always looking at some sort of a subsidy?

Mr. GERIG. I think you have to go back to the history of why transportation systems were started in the first place. I think originally, they were not started for the possibility to be self-sustaining. I think we all looked at a partnership concept of the Feds, the State, and the local.

Presently, right now, we, out of our fare box, we spend, we come up with 40 percent of our costs through our fare box. We would like to improve that, and 40 percent is a pretty good figure.

I think in most instances, they do not reach that figure.

Senator QUAYLE. I was going to ask you, do you know what an average is, nationwide?

Mr. GERIG. I do not know. We have Jim Armington, our manager. What, around 30 cents, Jim, or, 35?

Senator QUAYLE. Do you think that would be a fair guideline, that we might be able to establish that a subsidize, up to 50 percent, or 45 percent? What I am trying to do is figure out a way that we are going to get a handle on the increased growth in these programs. You mentioned if we get more flexibility in transferring funds you could probably do away with, or, come along with some sort of a reduction. I am trying to see if you might be able to set the subsidy, if you are operating at 40 percent of the fare box, if you, maybe set that as a national average, or, maybe make it 45 cents——

Mr. **Gerig**. I would see no problem with that personally, because I know that our board is looking to try to increase that at our own local level.

Senator **Quayle**. Have we come up? Five years ago, at what level were we? Is it a 40-percent increase?

Mr. **Gerig**. I do not know. I was not on the board at that time.

GAS TAX WILL NOT HAPPEN

Senator **Quayle**. Mr. Graham, I can assuage your fears about a 30- or 40-percent gasoline tax. It simply is not going to happen. I would imagine that some time in the next year, 1½, 2 years, that there is going to be a discussion on revenues, after we go through what we can get on spending.

I think that spending, the chart shows that spending has got to be the first one. We cannot get our eye off of that. There has been some discussion about an energy tax. Now, that energy tax probably has been translated in some of your newsletters, or, have had some discussion of maybe a 30-cent or 40-cent gasoline tax. That is simply not the case. We have already gone down that route with the 5 cent gasoline tax in December 1982.

Mr. **Graham**. Right.

Senator **Quayle**. And so I do not think that that is going to happen. All right. Let me see if I hear you right. We ought to go forward with that ICE I mean, I hope that we can get that through. We are going to get it through the Senate reasonably quickly, again, and release that money.

Mr. **Graham**. We are glad to hear that.

Senator **Quayle**. It should have been done last year. I think our big problem again will be in the House, but I think eventually, if we can get all those demonstration projects off there, and just pass that clean bill, and to get the money—it is $7 billion. Let me see. How much of it comes to Indiana? Something like 100 and——

Mr. **Graham**. $130 million to Indiana; $7 billion, totally.

Senator **Quayle**. Yes; $130 million is about 4,000 construction jobs that we are talking about around the State.

Mr. **Graham**. Right.

Senator **Quayle**. If we could do that, what you are saying to me, you are willing to take that reduction of about $500 million from the administration's request in return. You could possibly live with that for a year as a reduction, if in fact they go ahead with that ICE agreement, or the ICE proposal as it was originally submitted. Am I summarizing your statement accurately?

INCONSISTENCY OF FUNDING BIG PROBLEM

Mr. **Graham**. Summarizing mine correctly. Now, whether the entire industry would agree with that conclusion, I do not know. I would suspect that they would. Their big problem, as you know, over the years, has been the inconsistency of the funding.

Certainly, in the long run, good highway transportation is going to continue to be a very, very vital part of the economic growth, and we would hope that it would not be curtailed indefinitely. But a cutback in that order I would think would be acceptable, if in fact they say *x* amount of dollars are going to be available, and they are released to the States on schedule.

Senator **Quayle**. For the people in Indiana, you speak basically for what they probably would be willing to support?

Mr. **Graham**. I think so.

Senator **Quayle**. I would think you would, too.

Mr. **Graham**. Part of the failures, that we have experienced business failures, and the like, is just the inability of them to do any planning, and as a consequence, they bid inefficiently. They bid to desperately get work on the theory that the money may not be available 6 months from now. And it makes for a very, very inefficient operation, both in the contracting industry, and also, State highway department, and city, town, and county road and street agencies.

So, the important thing, I think, as far as our industry is concerned, is the continuity of the program. With a slightly reduced level, certainly that, I would think would be acceptable, yes.

Senator **Quayle**. Mr. Stackhouse, I think you sort of put your finger on the problem, at least facing the Indiana farmer and the American farmer in general. We have got to reduce these interest rates, and one of the best ways to reduce these interest rates is really to reduce spending. One of the problems that has been discussed today, that we have talked about briefly, and that is the farm credit problem.

READJUSTING INTEREST RATES DOWNWARD

Do you think that the suggestion that the administration has put out; dealing with the possibility of readjusting the interest rates downward, or the forgiveness of capital, up to 10 percent; is that going to work? Is that going to help out some of the marginal farmers that are having a real credit crunch here, in Indiana?

Mr. **Stackhouse**. Well, we have encouraged the President to come with the program, and this was the program he came with, of course. I think part of the problem is that the banking industry has not chosen to take the buy down in principle I think they prefer, the buy down in interest rates, and so far, that has not really come on very strong, either.

It is a question, it will be fine if it will happen, I guess, but I think part of the problem may be that the industry is not willing, so far, to do it.

Senator **Quayle**. When you say industry, you mean the banking industry?

Mr. **Stackhouse**. The financial institutions. And I think it is because some of their margins have been squeezed, and they do not have the money to do it, either. They feel they cannot stand it, and I am sure the Farm Credit Administration feels the same pressure. Some of the PCA's, and others, have lost about all they can lose, and they do not feel they have the capital structure, I think, to do that. That would be my reason, I think, for why it is being kind of slow to come about. Somebody has to make this money up, I guess is what I am saying.

Senator **Quayle**. Do you think that as time goes on, and as the farmers come in for refinancing this spring, particularly to make the plantings, do you think that the attitude may change, or do you see that sort of as people putting their feet in concrete and not going forward on this? What would be your best guesstimate at this time?

Mr. **Stackhouse**. Well, I think they have been to their bankers, and I think they have had the bad news, and I think they do not quite know what to do about it, and so, I do not know as I have an answer to you, Senator. I am not sure who is going to give. Some of these farms are going to come up, and that is what is the matter with the whole agricultural industry out there. It is in real jitters today. Nobody knows where they are at. It is the same thing that Mr. Graham was talking about. They do not know what to plan on. Some of these people do not know what they are going to do this Spring, and the banks do not know whether to give it to them, or not. And they are really serious.

FARM ECONOMY IN INDIANA IS BAD

Senator **Quayle**. How would you assess the farm economy in Indiana today?

Mr. **Stackhouse**. Well, it has been pretty bad because we have had about four things, that have probably brought it about. The first was the embargo that killed our markets about 4 years ago. Well, there have been three or four embargoes, but that killed our foreign markets in many cases.

That started it. Then we got into a depression, and our depression was followed by worldwide depressions, and so countries who normally buy from us did not buy.

And then we have had bad weather, and we have had some farmers with 3 out of 4 years of bad weather, and that has really put them in bad shape, plus the fact that when our interest rates went up 2 or 3 years ago, it really took a man out in a hurry.

I mean, you did not have to have 1 or 2 or 3 years. It did it overnight. And those are the three things that has got the agricultural economy in bad shape, and it happened immediately, plus some buying, probably overbuying of land and facilities.

Senator **Quayle**. Gentlemen, thank you very much.

We have one final person who indicated he wanted to testify.

Mr. **Stackhouse**. One other comment.

Senator **Quayle**. Mr. Stackhouse.

Mr. **Stackhouse**. You asked some other questions, and I do not want to get into them particularly, but I think we feel that interest can do more for us than anything else now, because if it does, this may straighten up this value of the dollar a little bit, and we have to get that back somewhat, I think, in line, if we are going to get in the foreign markets. And if we cannot get back in those foreign markets, we are dead. So, I think there is a lot riding on whether the Congress can balance this budget. That has to happen, I think.

EXPORT MARKET MUST BE REGAINED

Senator **Quayle**. I think as we have discussed here today, that you have got the high real cost of money today, and that is by the difference between inflation and interest rates. Forty-eight percent is being financed by foreign investment. Foreign investment coming in here strengthens the dollar. A strengthened dollar hurts our farm exports. It makes it difficult to compete. Also, quite frankly, the high loan levels, the high target price supports do not help things out either, because other countries, whether it is Canada, or France, can come in and, put a nickel in underneath there, so it is somewhat self-defeating. We have a relatively high cushion, but when we get in to the international market, plus the value of the dollar, plus the high supports, plus the grain embargo that you have had, we're priced out of the market. Most Indiana farmers tell me that they want to produce. They would rather have the production than the set-asides, or the punch cards, and go down and figure out how much they are going to produce. They want to go out and produce, which means that we have got to regain that export market.

And I think that you have made some significant recommendations on entitlement reform, and I think it is darn good. Mr. Graham, did you want to say something?

Mr. **Graham**. One item relative to that. In the construction and equipment manufacturing industry, as you probably know, the strong U.S. dollar is doing terrible things to those manufacturers. International Harvester has gone out of the construction equipment business. Caterpillar Tractor Co., which is the kingpin, lost $426 million last year. They are in the process of closing five of their plants. A number of other firms. Some of these are rather major manufacturers in Indiana, and they have suffered very tremendously in loss of overseas markets because of the strong dollar.

Senator **Quayle**. Gentlemen, thank you. There is one other person who wanted to testify, and I told him I would give him 5 minutes, here, at the end.

Where is Reverend Solomon?

Reverend Solomon, do you want to go ahead and proceed?

STATEMENT OF REVEREND SOLOMON, INDIANAPOLIS, IN

Reverend **Solomon**. Yes, sir. I want to thank you, Senator, for allowing me this opportunity. I noticed that most of the people you had on this panel were relating to the budget from a posture of middle class values. They were talking about things in the budget as domestic spending, and welfare, et cetera, that would be expressing those people's lives.

And I noticed in looking around the chamber, that there were not any of those people from the streets, and from the ghettos, that they were talking about, from the vantagepoint of a middle class level, and even maybe bourgeois, in some instances.

And I would like to pause right here, Senator, and ask you to allow me the same luxury you did the mayor, when he finished his presentation. You thanked him and told him you appreciated his candor, and I would love to have the same luxury, that I would hope you would appreciate mine, also.

Senator **Quayle**. I will.

Reverend **Solomon**. These people were measuring the effect of a budget that Congress is putting together. It is like holding the destiny of their—their destiny in their hands, and they are talking about cutting. I heard one business gentleman mention cutting welfare stamps, and when he did that, I wondered if he knew of families and people in the ghetto, that their welfare stamps run out before the month is out. And they have to combat a week without food. And we could go through a number of things but I wanted to capsule it.

I would like to also—Senator, you know, one of my greatest ambitions would be to grow up to be President, and you are a Federal Congressman, and you allowed some of the other panelists the luxury of, from your congressional posture, you made them President for a day!

Senator **Quayle**. We will make you President for a day. How are you going to cut the budget?

FREEZE DOMESTIC SPENDING

Reverend **Solomon**. Very good! Thank you! I, too, would freeze domestic spending, and possibly Social Security. You know, we talk of welfare and we talk of welfare with people receiving stamps, and aid to dependent children. But then we can give $1.8 billion to a foreign nation like Israel, the State of Israel, and we call it foreign aid, and we do not call it welfare, because they do not pay it back.

We can glorify how our defense and the Pentagon spend $450 for a hammer when it could be gotten for $4. I would also take away where these atrocities existed in the Federal spending. For example, like I mentioned earlier, these dependent families that go a week without food. All of us could just about fast for a day. I would take all military and Federal spending for a day, and freeze it, and then include that waste in there, and you would come up with about another $10 billion you could take from defense.

And then I would create a miscellaneous surplus fund, and I would use that miscellaneous surplus fund to subsidize domestic spending, Social Security, and a number of other ramifications, but I do not want to prolong this. Another major reason I wanted to testify today was because you, as a Federal congressional committee—we have already asked the 10th district Congressman in this area, to look into the spending of Federal funds through UDAG grants in this city under the name of development.

Let me pause and ask about that red—you know—in the ghetto we go in to a reaction syndrome when we see a red light flash.

Senator **Quayle**. What we have done with our witnesses is, we have allowed them each 5 minutes to testify, and when the red light comes on, they usually summarize their thought and try to finish within a minute.

Reverend **Solomon**. OK. That is what I was doing.

Senator **Quayle**. So if you could wrap it up in 30 seconds, or a minute, we would appreciate it, and that way, that keeps the groundrules.

LOOK INTO WAYS FEDERAL FUNDS ARE BEING SPENT

Reverend **SOLOMON**. OK. And thank you for your indulgence. I was at the point of saying that our foundation, and which I am the chairman of the board and chief executive officer, as a class action request, we would like your congressional committee to look in to the way that Federal funds are being spent in Indianapolis under the guise of development.

And we indict certain entities and agencies, and elective and administrative officials, that through the use of these funds, and which they are being spent, it seems to be racial conspiracy involved, covert activity between the administration and certain black and civil leaders in this city, and that for the way that the Federal Register stipulate under the stipulations from Congress, on how these funds would be spent and used. That the funds are being misused.

And we would like for you, as a Federal Congressman of the Budget Committee, to take the proper action to look into this matter. We are submitting this as a class action request.

Senator **QUAYLE**. OK. I look forward to receiving that. You have to put this down in writing, and, once you get that, you know where our office is in the Federal building there——

Reverend **SOLOMON**. OK.

Senator **QUAYLE** [continuing]. And we will certainly be glad to look into your requests that you have. Thank you very much.

Reverend **SOLOMON**. Thank you.

Senator **QUAYLE**. The committee is adjourned.

[Whereupon, at 3:45 p.m., the committee adjourned.]

ECONOMIC IMPACT OF THE FY 1986 BUDGET PROPOSALS ON THE STATE OF INDIANA

TUESDAY, FEBRUARY 12, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Terre Haute, IN.

The committee met at 9:38 a.m., in the Federal Building, Terre Haute, IN, Hon. Dan Quayle presiding.

Present: Senator Quayle.

Staff present: John Palffy, chief economist; and Greg Zoeller, legislative assistant.

OPENING STATEMENT OF SENATOR QUAYLE

Senator QUAYLE. This is our second day of going around the State to have some hearings and get input on how these budget cuts are going to impact cities, how they are going to impact business, how they are going to impact farmers, and how they are going to impact older Americans. Because I think that the real choice that we have is: One, we can go down the road with spending cuts, or go down the road with tax increases. I believe the way that we should go—and the way that I think the people of Indiana want to go—is to go down the road of spending cuts. So if you are going to go down the road of spending cuts, which I think is proper, we are going to have to find out where, how much, and what we can get by with. It is certainly going to be a good edification for me personally, and I hope everybody else will pitch in as well and try to get a hold and establish a concensus on this.

So I am delighted, mayor, that you could make it this morning. We are glad to be here. We are going to go on to Evansville hopefully, and later on tonight down to Dubois County and Jasper and end up in New Albany and have some hearings there tomorrow, but who knows between now and then.

So we will go ahead and proceed.

STATEMENT OF HON. P. PETE CHALOS, MAYOR, CITY OF TERRE HAUTE, IN

Mayor CHALOS. Senator, first I would like to thank you for having taken the time to come to Terre Haute, and to give us all an opportunity in this part of the State to testify. We thought we were in church, we were all sitting back for a testimonial service. I was in Chicago yesterday with some mayors, and in driving back home last night, I thought anybody who would get out on the road and drive this morning is really dedicated. So thank you and your staff for being here.

I have some written testimony that I have presented. Each one of my department heads did likewise. So rather than read all that and make comments from our written testimony that is available to your staff, I would rather——

Senator **Quayle**. We will put your testimony in full in the record.[1] We will also put the statements from your department heads in the record.[2] We have a person here from the Senate Budget Committee who will handle that.

PEOPLE CONCERNED ABOUT LOSING REVENUE SHARING

Mayor **Chalos**. I would rather speak about some of the services, what it means to the citizens of Terre Haute, to the city of Terre Haute as a governmental agency, that is entrusted with providing services to the Terre Haute area.

I might say that our feeling is that we do not mind being part—as a matter of fact, we are very pleased to be a part of—either balancing the budget effort by Congress, whether it be by reductions in spending or by increases in taxation as long as it is done fairly and equitably and across the board. We feel like we can do our part if all other agencies do their part. What concerns I have as mayor are that a lot of these programs presented to the public or Federal revenue sharing does not mean anything to me—UDAG certainly does not mean anything to a lot of people, if you use the acronym. Neither does CDBG. It sounds like KGB or something like that. But when we say that without Federal revenue sharing, I am going to lay off the school crossing guards, and about 10,000 of Vigo County's 18,000 students that walk to school, will have to walk without school crossing guards to protect them at crossings, then it takes a different outlook for the people of Terre Haute who are concerned.

SOME POLICEMEN AND FIREMEN WILL BE ELIMINATED

If I say that if we lose Federal revenue sharing that I am going to have to eliminate a certain number of policemen, maybe 15 out of 120, and possibly 10 firemen, that certainly takes on a different character for the people because you are talking about crime and protection of life first and property second.

We have used Federal revenue sharing for equipment for those departments. We have not used it for salaries. In eliminating the money for equipment, we are going to have to compensate somewhere. As a result we are going to have to cut staff. I perceive my biggest responsibility as protecting lives and property. While we are having across the country a slight reduction in crime, here in Terre Haute we have had over a 30-percent reduction in crime over the last 4 years, and that has been due to good police effort. I would hate to have to cut that.

---

[1] See p. 131.
[2] See p. 154.

BUSES WILL BE ELIMINATED

To my sister, UMTA sounds like a tuba. But when you say that the LPN's at regional hospitals will not have a way to get to work because they are low paid and cannot afford a car and the high price of gasoline, that is something else.

When you say low-income workers, and I think the average income in this county is lower than any county in the surrounding area; it is certainly one of the lowest in the State and the country, then when I start eliminating buses for 2,500 people that have no other way to get to work, to school, or to medical care, that takes on a different color also.

CREATION OF NEW JOBS WILL SUFFER

So I am looking at creating jobs in Terre Haute. That is one of our responsibilities, working with a lot of other agencies. And we hear that UDAG is going to be eliminated. Well, UDAG is one of the tools that we used to get the Sony Plant located in Terre Haute that hopefully will replace some of the jobs that we have lost when United States Steel and other firms closed.

When we look at some of these programs, and we think of CDBG, a lot of people compare CDBG to the old WPA. Well, the folks that did not participate in those programs in the thirties have always looked down on them, but that is the program that built this building, built the university's laboratory school, built the old Union Building that we are still using. And CDBG is what we have used today to build sidewalks, curbs, streets, infrastructure facilities to make it possible to raise the quality of life in Terre Haute, and also make us a community that can compete with other communities in bringing jobs to Terre Haute.

We have fine educational institutions in this town, too, and although it is not our realm of responsibility, we like to think that we can provide a youngster with good training, and not only youngsters, but nowadays in the time when we all have to think of retraining as we go along, that we have facilities to retrain ourselves and make ourselves competitive in the job market. And we understand the need for national defense, and that is probably the National Government's first priority to defend us from our enemies around the world.

UTILITY RATES AND HEALTH CARE COSTS HAVE SKYROCKETED

The amount of the moneys that the cities—and when I say cities, I am not speaking of Terre Haute, I am talking about all these people that live here, and the Terre Haute citizens that live here, we have taken cuts in all those programs annually now for 4 years. It is not as if we have not been cutting those budgets. We have. And any savings that we have made certainly is not the responsibility of the Congress but have gone over here to pay higher utility rates that have skyrocketed out of the ceiling in Indiana.

So whatever cuts Congress has passed on down to us in those programs, we have survived very well, by saving money. But the money we save really has not gone anywhere except higher utility rates and higher health care costs. Our Blue Cross-Blue Shield payments have gone out of the ceiling, of course. We find ourselves in a position where it is not a very comfortable situation. We are willing to do our share on it, you know, and we find that we want to be eliminated totally as far as Federal revenue sharing, as a lot of CDBG and a lot of UDAG and urban mass transit money and things, eliminated totally because we want to upgrade our national defense system and that national defense not suffer any costs.

You know, if we have been able to survive and get better and leaner and more in tune with running a place fiscally sound, I think the National Defense Department probably can do likewise if it was forced to. You know, we find that whether it is a home or it's a city, if our income goes down or if our responsibilities increase for the income we have, we usually find ways of compensating and tightening our belts up to a point. After awhile, when you start feeding on yourself, that gets to be a little dangerous.

FAIR DISPOSITION OF MONEY NEEDED

But, we know, and I know you know, and most of the Congressmen that I have talked to about this feel the same way, that there are people out here. You know, that is somebody's aunt that is in the senior citizen's center, it is not just a body we warehouse. It is a person. And when we cut housing assistance down, it sounds like it is some unreal group out here when you say public housing, but it is not some unreal group, it is somebody's daughter that got married and her husband deserted her and she has got two kids to bring up, and she is out there trying to find a way to keep a roof over her head. It is somebody's grandmother. And those human needs are deserving of at least the consideration, that if we are going to freeze, let us freeze all the budgets. And if we are going to cut, let us cut all the budgets, not just eliminate these human needs for the sake of building a greater and greater National Defense Department. We are not downgrading national defense but, it has been my observation that, when I was in San Antonio, that their UDAG and their Federal revenue sharing were all those air bases around there and the great amount of money that was funneled into San Antonio. As for Boston's naval shipyards, I am sure that they do not mind another $50 billion in national defense at the expense of Federal revenue sharing. Because a lot of that money that is spent in those States have those kinds of facilities. So some of the tradeoffs, I am sure, are going to be there for some of the people representing their constituencies. But here in Indiana and here in Terre Haute, my responsibility is to tell you, and hopefully Congress, that these programs are not euphemisms, they are not little letters on the board. They are real life people with real life needs, desperate needs in a lot of cases. And that I think that if we cannot take care of human beings and spread our responsibilities so we are treated fairly in the disposition of money to take care of these needs, that we are really being a little negligent about that aspect of human life that we try to build in cities and towns where the people live.

I would be glad to answer any questions that you might have, Senator.

Senator QUAYLE. Thank you very much.

[The prepared statement of Mayor Chalos follows:]

OFFICE OF THE MAYOR
City Hall
17 Harding Avenue
Terre Haute, Indiana 47807
812-232-9467

P. Pete Chalos, Mayor

February 8, 1985

Honorable Dan Quayle
United States Senate
Washington, D.C. 20510

Dear Senator Quayle:

I am pleased to have the opportunity to testify concerning the proposed federal budget cuts which significantly relate to many programs in Terre Haute and other cities.

First of all, I consider programs funded by tax money collected for the federal budget to be money from the pockets of Terre Haute citizens. This money rightfully belongs in the cities to benefit these same taxpayers. Some of these monies are returned in the form of Federal Revenue Sharing, EDA improvements, CDBG monies, and Urban Mass Transit Operating Assistance Grants. These programs have been of vital assistance and benefit to these same citizens who have a right to see their money working in their behalf in their communities.

We have been good stewards of this money. It has not been wasted on unnecessary programs. We have spent these monies for better streets, sidewalks, firehouses and equipment, street garages, buses, police cars, parks, school crossing guards, and in parternship with industry to create new jobs in Terre Haute.

We have for the past several years watched the federal government wrestle with the national deficit. We recognize the great need to balance the budget or cut the burgeoning federal deficit. We are very supportive of the Federal Government doing so, but feel it should be done in a fair and equitable manner.

If the Federal Government were to freeze all items in its budget at the present level, and use all new tax monies generated by the growing economy to retire its debt and cut its deficit, that would be acceptable and understandable. Similarly, if all federal programs were to be cut by an equal percentage, that also would be acceptable and understandable.

Senator, what really disturbs me and many other local officials as well, is the suggestion by the present Washington administration to cut some programs in their entirety, while others are allowed to grow. We as good citizens want to do our part in solving budget problems, but with fairness and equality. We ask you to support fair and equitable cuts and to freeze federal spending at present levels until people have an opportunity to testify through meetings such as this.

I do not feel there should be any sacred cows allowed to graze in a pasture of unlimited tax monies, while others are taken to the slaughter house to make room for those remaining programs to not only feed well, but grow fat in the process.

In closing I must say, all of these federal programs were initiated out of great need--great needs that have not disappeared. These many programs are serving a useful and vital purpose. Elimination of these programs would cause great hardship to our older, aging cities; cities from this part of the country who have carried the load for building the South and Southwest. The above mentioned programs have been the backbone of re-vitalizing our older cities, and establishing our newer ones.

We must all remember that these funds we are discussing in reality represent an investment of people and their most basic needs of housing, education, protection of life and property, and job opportunities. In other words, these funds are representative of our quality of life. I know Congress will display empathy and carefully consider the needs of its constituency, as it makes its decisions concerning the budget.

Thank you for the opportunity to present to you the needs of the people of Terre Haute, Indiana. We know that after you have had an opportunity to consider our needs, you will vote in the best interest of the people of the State of Indiana.

Sincerely,

P. Pete Chalos

P. Pete Chalos, Mayor
City of Terre Haute

Senator **Quayle**. If I might, why don't we ask Bill Ray if he will go ahead and give his testimony, and then if it is all right, I will ask both of you questions.

Mr. **Ray**. Very good. I would like to read mine.

I do have a rather brief prepared statement, and I would like to read it.

Senator **Quayle**. All right.

STATEMENT OF WILLIAM H. RAY, EXECUTIVE DIRECTOR, TERRE HAUTE AREA CHAMBER OF COMMERCE

Mr. **Ray**. My name is William H. Ray. I am the executive director of the Terre Haute Area Chamber of Commerce.

First, I want to express my appreciation to you for bringing these hearings into this part of the State so that more of us can have this opportunity to participate in the legislative process. I thank you for making my participation possible.

Every business person I know has been very concerned about the Federal Government's deficit spending practices for many years. We have been expressing this concern at every opportunity, realizing that the day would come that a massive deficit would cause serious economic problems for the people, for the businesses of our country. And that day has come.

An average citizen back here has little sympathy for, or willingness to bear, the brunt of a solution through an increase in his or her tax burden, nor do business people.

FEW BUSINESSES HAVE ESCAPED CUTBACKS AND COST REDUCTIONS

During the past several years, we have seen inordinately large numbers of businesses, both large and small, fail or be forced into major retrenchments. Few businesses have escaped drastic cutbacks, cost reductions or belt tightening. Additionally, they continue to be besieged with rules and regulations. The most recent example is a ridiculous new regulation for keeping records of vehicle use. The cost of this one to business will be staggering with insignificant tax revenue gains for the Federal Government.

At the same time, we have been hearing all the comments being attributed to various Members of Congress about their inability to agree on any substantive action for the recommendation of the Grace Commission for eliminating waste. As a Member of Congress, you must try to understand the impact of all these circumstances on the frame of mind of business people generally, small business people in particular, to fully comprehend their antagonism for any tax increases or for the transfer of the burden to our local units of government.

I believe a great majority of us support Federal revenue sharing to our States and cities and towns. We believe the Federal Government is an efficient collector of revenue, but local units of government are much more efficient and effective users of our tax dollars. Therefore the prospect of increasing taxation at all levels of government, Federal, State and local, and for the reduction or elimination of revenues at the most effective efficient points of utilization is not being embraced by business people.

MAJORITY OF BUSINESS PEOPLE SUPPORT GRACE COMMISSION REPORT

Most business people would much prefer some meaningful effort from Congress to attack, and I underline attack, waste as recommended by the Grace Commission. Business people are very concerned about the massive Federal deficits and its adverse effects. But right now they are just as concerned about what might be done to attempt to solve the problem. A great majority of business people want to see meaningful effort to act on the Grace Commission report. If this is not done, even with freezes and/or massive reductions, the problem will be right back in our laps again. Most business people would support an accompanying even-handed, across-the-board reduction of spending with the possible exception of national defense.

Many businesses and business associations would not want to see these problems transferred to local units of government by eliminating revenue sharing. That would be a sleight of hand maneuver.

During the past 2 years, we have experienced a phenomenal business comeback from the brink of economic disaster as we moved into the eighties. This recovery by business and the accompanying growth in employment is a direct result of the 1981 tax cuts. Let us not shut down this economic comeback with another tax increase.

ACTION ON SPENDING CUTS AND ELIMINATION OF WASTE NEEDED

To sum up, let me say that drastic action is needed. This action must be in the direction of spending cuts accompanied by the elimination of waste. Such action will have the support of a great majority of the people of this State, of the State of Indiana. If this country attempts to solve deficit problems through revenue enhancement, it will only make the real solution more difficult to obtain.

I thank you for this opportunity to make my brief statement on behalf of the Terre Haute business community.

Senator QUAYLE. Thank you very much, Mr. Ray.

Let me just make a couple of general observations and then ask a couple of questions.

First, Mr. Ray, I can assure you that there is a lot of sympathy with your statement concerning this log requirement, and I can assure you of one thing, that this thing is going to be either greatly modified or repealed. If I have got anything to say about it, it will happen hopefully sometime this spring. Because the costs out there, the paperwork and the intrusion are absolutely ridiculous.

SERVICES PROVIDED BY REVENUE SHARING ARE IMPORTANT

I think both of you talked about the importance of revenue sharing. I think that is the top of the cities' agenda as far as trying to see certain programs retained.

I wrote a letter to a number of the mayors and received responses from several. Your testimony is not terribly dissimilar from what Mayor Hudnut had to say yesterday—that the revenue sharing is absolutely critical to providing services, continuing services that you have here in Terre Haute. Mr. Ray underscored that, the importance from the business point of view as well.

I think it is interesting and is important to note that our objective is in fact to try to reduce spending. Both of you have talked about a freeze of some sort, a reduction in spending.

For one thing, when we get into the idea of national security and national defense, we all know its importance. As you pointed out, Mayor Chalos, it is the number one priority of any government. But there are efficiencies that can be made in the Department of Defense as well as there can be efficiencies made in nondefense items. Savings and efficiencies really ought to help in reducing the budget. My standing is that we are going to take it out of defense. Defense is going to take more of a clip than what it has had to take in the past, in order to reduce the deficit.

Look at where we have gone in the last 20 years, as a percentage of our budget—we have gone up from total outlays in 1960 to 1985. Defense has gone from 52 to 27 percent, payments to individuals have gone from 26 to 45, which is quite a shift. It is a shift of priorities. But, you know, we have had a different attitude about what the Federal Government ought to do. We have gotten involved in a lot of different things, income security, maintenance programs.

I think one thing that Mr. Ray said summarizes the dilemma that we are in, and I would like to ask you to expand on it. The services that are being provided by revenue sharing money are important. They are not just programs, they affect people. As Mayor Chalos points out, these are people programs. You mentioned that CDBG sounds like KGB. You know, that's interesting. Most people think of the KGB as the Secret Police of the Soviet Union. When you mention the KGB on the floor of the United States Senate, KGB stands for a freeze amendment that was offered by three Senators last year, Kassebaum, Grassley and Biden. So here you have to take your choice on what this all means to everybody, to put it in its proper perspective.

FEDERAL GOVERNMENT MOST EFFICIENT COLLECTOR OF REVENUE

But Mr. Ray pointed out that the Federal Government is the most efficient collector of revenue and the local government is the most efficient user of the revenues. This is what we have done because these services have got to be provided. And if it is not provided by revenue sharing money, then the mayors are in a real dilemma. According to the budget he has now, he either has to lay off some vital services or raise taxes, and raising taxes is not a popular thing, particularly at the local level. But it seems that it is easier to be done at the Federal level. So we can raise taxes at the Federal level and then go ahead and disperse them back.

Mr. **Ray**. We are not talking about raising them.

Senator **Quayle**. You are not talking about raising them? OK. OK, go ahead because this is what I think——

INEFFICIENCIES AND INEFFECTIVE SPENDING

Mayor **Chalos**. We know, and again I am talking about business people. That there are a lot of inefficiencies and ineffective spending, and we know if there are going to be any meaningful cuts or reductions, the kinds that we are looking at, with the way the deficit is, it has got to be where the money is. You know, it has got to be in the 45 and 27 percent because you are not going to cut a whole lot out of 6 percent and get anything meaningful to reduce the kinds of budgets that we are talking about.

And the 27 percent, in national defense, that is something like 6.3 percent of our gross national product. That defense spending, even though the number sounds horrendous, has been coming down and down and down. So it has got to be freezes and reductions and elimination of waste. I have read all these reports; there is a lot of money there. It can go a long way if we just force some efficiencies into Government the way we business people had to force them into our operations. And those that did not do it are gone.

Senator **Quayle**. Again, those incomes. At 45 percent, the two biggest programs are Social Security and Medicare. And you start getting to some pretty tough non-political issues but very sensitive issues to the people.

DEFENSE FIGURE SHOULD SHRINK IN PEACETIME SITUATION

Mayor **Chalos**. Senator, national defense in the seventies was shrinking. Rightfully, it should have shrunk. We were in the throes of the Vietnamese War all the way through the sixties, and America was spending a great amount of money out of its budget for the Vietnamese conflict. It should have probably shrunk to half that size in the peacetime situation. You know, we were spending billions and billions of dollars in Southeast Asia during that period of time, and to say that they sacrificed during this——

Senator **Quayle**. Look back at 1960, we were not at war anywhere and defense was 52 percent of the budget. That is going back to the Eisenhower and Kennedy era. And Kennedy, as a matter of fact, ran on a strong national defense platform.

Mayor **Chalos**. That might be true. But that was the Cuban Missile Crisis and, you know, we were involved in building up the armament of the country because all those ships were carrying missiles to Cuba at around that time. And that was the time when we had the Berlin Wall erected in the fifties, and that was the time we had a lot of direct conflict with the Russians.

And you might say, today we have Afghanistan and we have this and we have that. But again, you know, when you take a look at what the total amount of money the Federal Government was spending then, we are close to a trillion dollars today, and 27 or 28 percent of the trillion is probably a whole lot more than 52 percent of let us say 200 million. So, the total amount of money varies with percentages a lot more than we think it does from time to time.

RESPONSIBLE FOR PROTECTING PEOPLE AND THEIR NEEDS

I am not asking that 6 percent that represents State and local governments be left there in its entirety. What I am saying is that it represents an awful lot of good things that have happened in cities. And let me say, when I say cities, I am not talking about just New York City. You know, a lot of people get that concept. There is Jasonville and Shelburn. One of the things that we participated in last year was a survey, one that was sent out to every receiver of revenue sharing. And I am sure that when they got the results back, it would be easy for the Township Trustee of Prairie Creek Township to say that is not a significant part of his budget, it does not mean anything, that they could lose all of it, because it was $300, and it would not make a bit of difference.

So, yes, we could probably conduct a survey which showed that half the governmental officials in Indiana do not care if they have revenue sharing or not. And probably be correct. But they probably represent 10 or 15 percent of the people in Indiana, whereas a much smaller percentage of the people that responded to that same questionnaire represented a vast majority of the people in Indiana.

I like to think of people and their needs, and I know my responsibilities to protect the people. And yours is the same thing at a much greater level, to protect us in a worldwide situation.

FISCAL FAIRNESS AND RESPONSIBILITY BY ALL DEPARTMENTS

But Mr. Ray has brought up the point that I think we have learned to live pretty well with in Indiana because of the frozen property tax rate, and a lot of other restrictions on taxation. We have become a lot more efficient. And I would like to think that all levels of government could become, if they were forced to, a lot more efficient. And national defense certainly is not any different than any other part of the Federal Government. And I do not consider ourselves here as just being part of Terre Haute. We are Americans, and we are just as interested in being protected as the next person is. But we would like to think in terms of fiscal fairness and fiscal responsibility by all departments. That is what I am here asking for today.

INDIANA NOT RECEIVING ITS FAIR SHARE

Senator **Quayle**. Well, I think those goals are not only supported by me but also laudable.

I just wonder on this efficiency aspect, and I agree with the proposition that as far as efficiency goes, users of moneys at the local units of government are far more efficient than at the national level. I mean the mayors out here are far more efficient at making determinations in conjunction with the private sector on what decisions are going to be made for building a senior citizens center. Or on analyzing the success we have had with the Job Training Partnership Act. You know, public officials working with private officials. This is a Government program, and we said OK, fine, we will provide some of the funding for it but we are going to let you all carry it out. And it has worked. And we are doing it with much less. I mean I would like to spend more in that area, quite frankly because I am very interested in it. But I realize there are certain limitations, but it has worked because it has been decentralized.

But the one thing that the people of Indiana are right in saying, and I will get to this point, is that if we look at the Federal Government as sort of the collector of the revenues and then the disbursor who gives it back to the States, Indiana has always come out on the short end of the stick. Now, we have gone up in the last 4 years. We have gone up from 49th to 43d. So, from that point of view, the argument that is always made to me, and I think with a lot of justification. They say, well, now, Senator—and I am sure the mayor has heard this before and I am sure you probably have too, Mr. Ray—why do we not just keep the money here, and that would be more efficient utilization because we will raise the money here. Because every time the tax money goes to Washington, Indiana gets back 83 cents out of every dollar sent there. And so, therefore, our working people and a lot of the working poor are really in effect, not getting their so-called fair share of that.

How do you respond to that?

BUSINESS PEOPLE AGAINST FEDERAL TAX INCREASES

Mr. RAY. Let me respond first.

It is one of the reasons business people in Indiana do not want to see any more Federal tax increases because they do not anticipate a great change very quickly. And what money we do have here now, let us keep it here because we are going to get a disproportionate amount of it back, which has been historical. And that is, I think, as good a reasoning as any for Indiana business people and their attitude about the increase in Federal taxes.

When they are putting that on top of the other layers of things like waste and inefficiencies, that its in the gut of everybody, not just business people. That is Mr. and Mrs. John Doe.

PROGRAM CUTS MEANS LESS MONEY WILL BE RETURNED

Mayor CHALOS. Senator, if we would cut the programs that have been mentioned for cuts and give it all to national defense, my understanding is that Crane Naval Depot next year is going to spend about $90 million that Indiana residents have a whack at, which is a very insignificant figure out of the close to $300 or $250 billion of national defense money. And I would suggest that if we cut mass transit, it should go to the cities, Federal revenue sharing, it should go to all the localities. If we cut housing funds, our 83 cents will probably drop down to a nickel because we do not have those big military installations in Indiana that take a lot of that national defense budget. We do have some firms that get contracts. But more money will be spent out of this State rather than less if we cut those programs, at least send some of that money back to Indiana.

I think that if we stop the Federal Government's contributions to the interstate systems some way or another, or if we lower that 5 cents to a penny on urban mass transit, or we cut Federal revenue yesterday, yes, Hoosiers will get less next year. But the national defense budget going up will be spent in Texas, and in Florida, and Massachusetts, and in California, in States such as that. And we will even get a lot less than the 83 cents per dollar we send in, that we get now.

FREEZE CONCEPT IMPLIES EQUITY

Senator QUAYLE. Well, let me separate a couple of things out.

First of all, I do not think there is a direct tradeoff with nondefense and defense. You are not taking from nondefense and putting it in defense. You are looking at it as a whole picture, and everybody is going to have to share in this deficit reduction.

Mayor **Chalos**. That is if everybody is cut equally or if everything is frozen.

Senator **Quayle**. Everybody has got to be cut in a proportional way. The freeze has a lot of appeal to it because it is fair and across the board.

But the problem is if you freeze something like Social Security—older Americans—if there is no adjustment for cost-of-living, they are going to have some real problems. Therefore I think a more equitable approach would be to say that we will pay the COLA of about 3 percent of inflation so the adjustment will not necessarily be 4½ percent, it will be 1½ percent. This will help to take care of the people at the lower end of the income.

The agriculture aspect. I hope we do not freeze what we are doing in agriculture right now because there has been a disaster. You know, if we start thinking about freezing agriculture right where it is, then we are just going to continue this disaster. We are going to have to have some change.

I think that the freeze concept is a good one because it implies equity, and that is what we have got to have on this thing. But I do not want to say we are going to take out nondefense and put it in defense. You know, defense was not designed as a revenue-sharing scheme of things going to go back to the States. Defense is to provide for national security and the whole thing.

INDIANA DOES A LOT BETTER IN DEFENSE

I serve on the Armed Services Committee and Indiana surprisingly does a lot better in defense than a lot of people think. Not just to train, but you have the Army Ammunition Depot down there in Jeffersonville, you have Fort Benjamin Harrison, you have Grissom Air Force Base. And I can tell you that all the steel that is made up there in northwest Indiana is used for the tanks and things. You start adding those things up, plus the defense contractors, plus the engines we make over at Columbus. There some of the things right here in this area. I think you would be surprised at the amount of subcontracts that are defense oriented.

But that is not the reason you spend money for defense. You spend money because of national security and what national security means. I want to get back, not to this efficiency thing but it seems to me that really in a way it is easier for the Federal Government to raise the moneys, raise revenues, taxes. I am not saying I don't think we should raise taxes also. But it is easier for the Federal Government to raise taxes than local governments. Is that fair?

Mayor **Chalos**. That is not fair.

Senator **Quayle**. OK.

LOCAL TAXES RAISED TO PROVIDE LOCAL SERVICES

Mayor **Chalos**. We have not been shy about raising taxes for needed local programs. I served on the city council for 8 years, and this is my second term as mayor, and we have raised our local taxes to provide local services. And we have done it——

Mr. **Ray**. That is not the question though.

Mayor CHALOS. I know that is not the question, but we are not shy about being responsible for having to raise the tax rate.

I think there is a lot of thought on the part of the State legislature, well, you guys raise it down there, we are running for election this year, or something like that.

Senator QUAYLE. Always let somebody else take care of it.

Mayor CHALOS. Right.

But I think here in Terre Haute if we would tell the people that, look, we need project X, let us put it on a bond issue, and sell the bonds, and tax ourselves, and pay it off. If it is a legitimate project and it has worthwhile service to the community, we have always done that.

But what we are getting into now is that after Uncle Sam takes a big hunk out and the State increased personal income by about 57 percent a couple of years ago and sales tax about 25 percent, then they say, well, now, if you want anything, you raise your own tax rate. Well, if there was anything left to raise at all, we probably would. But that's the sense of equity we are looking for. I was looking at a program the other night where it shows we probably spent as much on cheese in this country, and in keeping the dairy farmers in business and keeping the price of cheese and milk up as we have on Federal revenue share. Very same period of time. And that will benefit 10,000 dairy farmers in Wisconsin, and the other programs are going to benefit millions of people across every State of this land. That is what I am talking about, some fiscal fairness and some responsibility for the broadest number of people that are benefited by a program and the quality of life it raises. Like your job training bill, we have worked real well with that with a lot of local businesses, and that has put a lot of people back to work, a whole lot more people back to work. Whereas, some programs have been putting people out of work.

I think if they try an across-the-board freeze till they study the programs for elimination, after a lot of hearings like this around the country, and come up with a sense of which programs we could really do without and for what reasons, I think most people are going to think and be serious about which programs we really need to benefit a great number of people or not. And I think that is the attitude I have.

In looking at some programs, yes, I think they probably will be eliminated in the long run. But if the local community is going to be responsible for a lot of these services, I would hope that the amount of money taken out of them is shrunk at each level of government upwards so that we can have more money left locally to tax ourselves and do what we need to do here.

Senator QUAYLE. So, in other words, you are basically saying that since you are squeezed so far by Federal and State taxes, you do not have any other choice but to try to get some of that money back for central services?

Mayor CHALOS. Correct.

ESSENTIAL SERVICES ARE RESPONSIBILITY OF LOCAL GOVERNMENT

Senator **Quayle**. Let me just play the devil's advocate on the revenue sharing. And the reason I do that is because I know how critical it is to the cities too.

For most of you, this money funds security, policemen, firemen, et cetera. The critics would say, OK, those are essential services, but since when is that really the responsibility of the Federal Government? The Federal Government was really never responsible in the past until revenue sharing came along to provide for central services like the policemen and the firemen. And that is truly a responsibility of local units and local moneys out of the use for that.

How do you respond to that?

Mayor **Chalos**. Well, I respond to that like I do about getting Government off your back and out of your pocketbook.

It is as simple as this. If everybody wants to deregulate everything, I am not going to go to any restaurant and eat today. There would not be too many of them I would feel safe eating in. I hate to say that about all these fine businesses out there.

Let us say how many of us would feel safe about eating meat processed in a plant that was never inspected by State, local, or Federal officials of some kind or other? How many of us would feel safe about wearing clothing that maybe would catch on fire, and burn our children, or burn ourselves and what the Federal regulations said? There are a lot of materials you can use and a lot you cannot use.

I do not want to throw out all those good regulations that we do have. They are there and they are essential for our welfare. I think Government has changed over the last couple hundred of years. You know, I do not think we are back in the days of where everybody traveled by horse or buggy and there was not any communication between Terre Haute, Indianapolis, and Washington. So, yes, there was a lot more done here on the local level because we lived in a very local, isolated community. Today, with the transportation and communication systems that we have, and with access to information at a national and international level, the form of the democratic kind of government has changed. And, yes, back when you built your own roads and charged a toll to your neighbors for using it, you might be able to do that in an isolated rural community, but you certainly cannot do that today. And I think the role of Government has changed and it changed drastically. We would probably have to get rid of all our TV sets, radios, and newspapers to get back to the way things used to be. And go back living isolated lives in isolated places.

I think we live in a different world than those people lived in, and we have to adjust to that world.

FEDERAL GOVERNMENT SHOULD HELP TO PAY FOR SERVICES

Senator **Quayle**. So basically you are saying that there is a responsibility of the Federal Government to provide money for central services like police and fire protection?

Mayor **Chalos**. I think in some cases yes, where it has taken enough money out and the States have taken enough money out, and it does not leave money at the local level, that some of it ought to come back.

Mr. **Ray**. The Federal Government is dictating in a lot of areas and a lot of ways what local units of government will do. And they certainly ought to share on the other side of it to help pay for it.

Senator **Quayle**. Well, I certainly agree with that, I have been a real critic of the way the Federal Government comes in and imposes certain standards and regulations——

Mayor **Chalos**. And mandates.

Senator **Quayle**. And mandates. He has got a shopping list. If I just let him go, he will just open it up and tell me all the things you guys out there in Washington are doing. I would turn around and look behind my shoulder to find out who he is talking about. You guys out there in Washington, here are all these things that you make me do and you do not give me any of the money to do it.

Mayor **Chalos**. We get it from the State, also.

FEDERAL GOVERNMENT HAS CERTAIN LIMITATIONS

Senator **Quayle**. You get it from the State too. We can blame those guys because they are not here right now. We can pass it off.

I think it is an interesting discussion from a philosophical point of view because some of the critics point out that there are certain limitations of what the Federal Government should in fact be responsible for and should not be responsible for.

Well, I think there is a legitimate argument if the tax rates are that high from the Federal Government and the State, that the local people feel squeezed out. They are not trying to shirk their responsibilities. If we look at a tradeoff of this thing, if we are going to decrease spending on certain things, maybe a decrease in taxes would be in line as well if we are really to advocate such a course.

If you go back to 1960 or actually in 1970, the State and local governments are about where they were. You probably could slice off maybe another 1 percent which is $10 or $12 billion more. Or you can say that we have an entirely new concept of what the responsibility of the Federal Government truly is. So I think it makes for very interesting discussion. Unfortunately, it makes for tough decisions because, you know, you would rather be sort of a Santa Claus. I would rather, come here and have a hearing on how we are going to spend this extra money that we have back there, and here we have to come before you this morning and say, well, now, let us offer up some cuts and how are we going to get by with less. And it does make it difficult.

So I thank both of you for your candid testimony and input in this. It is going to be helpful as we spend this week and one day, February 25, in nine different cities going around and seeking testimony. And I think this discussion, it has given some new input and will be good for the record and good for me. And I hope beneficial for you.

And we thank you. We will proceed in a hopefully mutually beneficial way because I think our ultimate concern is the people.

So I thank both of you very much.

Mayor **Chalos**. Thank you. We really appreciate the opportunity.

Senator **Quayle**. I guess I will have to go down the list and see who is here and who is not here.

I understand Mr. May is not here and Mr. Farber is not here. Is Mr. Webb here?

Mr. **Webb**. Yes.

Senator **Quayle**. Would you please come forward.

Mr. **Webb**. Thank you.

I did not want to impose on that noble pair.

Senator **Quayle**. Go ahead, Mr. Webb. We are delighted to have you here today and look forward to your testimony.

Mr. **Webb**. I appreciate this opportunity. I am glad to know that those in Washington come back home occasionally.

Senator **Quayle**. Well, Congress is on what they call recess and some take junkets around the world and some take junkets back to their home State. I am glad to be here.

STATEMENT OF E. LEE WEBB, DIRECTOR, TERRE HAUTE OPERATIONS, INTERNATIONAL MINERALS & CHEMICAL CORP., TERRE HAUTE, IN

Mr. **Webb**. We appreciate your being here very much.

I am Lee Webb, director of operations for International Minerals & Chemical Corp. here in Terre Haute. And first I would like to speak on behalf of IMC, as we know International Minerals & Chemical Corp. I would like to tell you how we see the deficit and what it means to us as a company doing business in Indiana.

We have several locations in Indiana and primarily we are engaged in the agricultural part. Here in Terre Haute, our facilities are mostly dedicated to animal products. We produce products for animal growth and health.

Also around the State of Indiana we have fertilizer operations. We also have industrial chemical locations around the State that provide products to the steel industry.

The thing that troubles us most is the farmers having to compete for credit. Most farmers are heavily leveraged. Most of these farmers are having problems getting credit for the coming year. Not to speak of where they are from the past, but going forward.

STRONG U.S. DOLLAR BOTHERSOME

The deficit and its pressures against the interest rates keep our products in a very, very precarious position. The thing that bothers us the most is the strong U.S. dollar and its relationships to other currencies around the world. You are aware of this. You know what is going on in the currency markets. Our products, when they are exported from our farmers and from IMC, go into the world market where the currencies are devalued very heavily in comparison to our dollar.

Now, let us pursue this reaction just a little further. The deficit, the high interest rates, the strong dollar, and our reduced exports. U.S. world trade has been pushed into an imbalance. Now, we are not opposed to having a strong dollar but we are opposed to having curbs upon it in which it brings the balance of deficits against us and out of favor with us.

IMC is currently contemplating some expansions in Indiana. Some of these will be quite dramatic. The economic impact of the high deficit and the high interest rates will cause us to move much more slowly in these improvements and additions in our Indiana facilities than they would under lower deficit of which we think will have a real strong emphasis on the interest rates in the future.

I did considerable research before I wanted to talk about the national deficit. When I studied economics trying to learn to be a business manager, a strong deficit meant high interest rates, but here in the last 4 years I've been very puzzled. We had roughly 21 percent interest rates, inflation rates of 12 percent or in that range, and here of late we have very high deficits. We have 10½ percent prime rate, we have an inflation rate approaching approximately 4 percent. When I asked some of my colleagues in the education world, I said what happened? They do not know. So we assume that you in Washington do know because our future must remain in your hands.

But one of the things we are very concerned about, that sooner or later someone is going to have to pay. We are all a whole lot alike. I think all of us want someone else to pay for it and not be adjusted during our lifetime. At least that is the way I see it in my discussions.

I would like to leave the position that I hold with IMC and talk to you as a private citizen for just a moment.

Whenever I started out to do my work on the national deficit so that I could speak intelligently here today, I ran across something I find very interesting. Marie Antoinette was supposed to have asked the Finance Minister of France what are we going to do about the national deficit? And the reply is supposed to have been nothing, madam, it is far too serious.

I ask you, Senator, is that where we are?

POSTAL SERVICE HAVING VEHICLES DEVELOPED BY AEROSPACE INDUSTRY

Now, I have some other things that I think should be brought to your attention. I travel occasionally, and my travels recently took me to Laredo, TX. And in Laredo, TX, on the Uniroyal test track there were several vehicles being built by members of the aerospace agencies for our U.S. Postal Service.

Now, Senator, we have automobiles, we have service companies for farm equipment, we have truck companies. But to go to the aerospace industry and ask them to develop for the Postal Service 100,000 vehicles to carry the mail is not what I think you people in Congress intended to happen whenever you emancipated the Postal Service.

I would like to see you people in Washington get control of that group and let us get them back to carrying the mail instead of doing research work with aerospace industry to develop vehicles to carry the mail.

In my prepared statement for you, there is much more on this, and a very good newspaper article on this. But if you look at this carefully, the aerospace system never made a cheap repair part or replacement part. And if our Postal Service is going to have vehicles developed by the aerospace industry, and you and I have a 22-cent stamp today, look out.

Senator, those are my comments. I appreciate the opportunity to be here. Our company, as you are aware, is heavily involved with farmers and the plight of the farmer is one of our great concerns.

Senator **Quayle**. Thank you very much.

[The prepared statement of Mr. Webb follows:]

PREPARED STATEMENT OF E. LEE WEBB

My name is E. Lee Webb - I am Director Terre Haute Operations for International Minerals & Chemical Corporation facility located at Terre Haute, Indiana. I appreciate this opportunity to speak to the Senator and offer the following remarks:

IMPACT OF LARGE FEDERAL DEFICIT ON IMC - INDIANA

A large deficit tends to keep a strong upward pressure on interest rates; this hurts the economics of IMC customers, including many in Indiana. The farmers who buy fertilizers and products for animal growth and health are for the most part highly leveraged, and the cost of money is most important to them in times of low commodity prices. They have trouble competing for credit when they are in dire economic straits. Our business with the steel industry and other customers for some of our industrial products is also severely reduced as they struggle with the problem of high interest rates.

The deficit and its pressures on interest rates help keep the U.S. dollar strong in relationship to other currencies; this has a negative impact, in some cases severe, on foreign customers' willingness and/or ability to purchase products we export from this country.

Pursuing this chain reaction still further (deficit -- high interest rates -- strong dollar -- reduced exports), U.S. foreign trade is pushed yet further into imbalance: as that imbalance grows, it increases the pressure on the government to apply trade barriers to restrict imports into the U.S.

Any push toward rampant protectionism cannot help but hurt us all down the road.

IMC is currently contemplating expansions of products and manufacturing facilities here as adjuncts to our existing Terre Haute operations. The economic impacts of high deficits have the effect of slowing our moves for growth in at least two ways -- high interest rates increase our cost of money, and markets for our products both here and abroad are considerably weakened. This is not to say that we are not going to grow here, but certainly the pressure is increased to hesitate, to postpone, to size the plans somewhat more conservatively.

One of the most immediate impacts of the large and growing deficit is that the interest which must be paid on an increased debt will, under our government's fiscal programs, be met by government obligations of one sort or another; ultimately, we all will pay those increased costs, businesses and individual citizens alike.

As the deficit is moved upward by increases in expenditures for certain areas, noble efforts are made to find counter-balancing expenditure reductions in other areas. When this effort fails, as it seems to do too regularly, the next effort is invariably to increase tax revenues. No matter what name is given or what techniques are used, the corporation and the individual are hurt.

In times of economic down-turn, we expect relatively high expenditure by government to help people in deep need and to get the economy back to a strong position. When on the other hand we are experiencing an up-turn, one would expect a lessening of government expenditures to give some turning room for the needs of the next down-tick when it comes. The planning process of both the individual and the business organization are on shakier ground when improving times are accompanied by escalating federal deficits.

The remarks that I have just made were as an employee of IMC and I now leave my industrial position and speak to you as a private citizen.

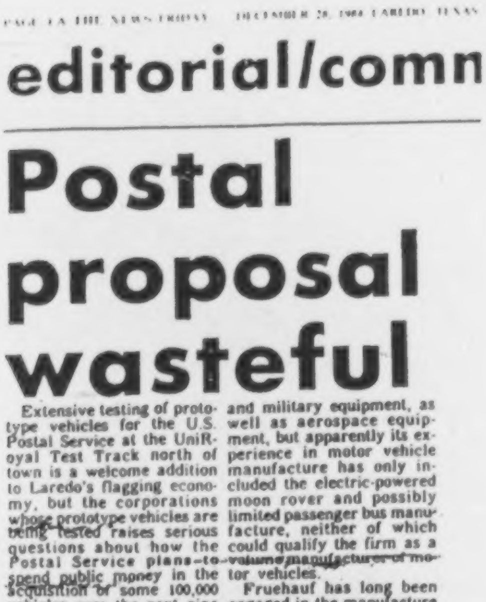
Each individual that has heard of the National Debt and the proposed deficit for 1985 can only wonder when will it all end. Each of us in our own minds know there must be an end to deficit financing, but trust we will not have to pay for it during our life. Many of us realize the seriousness of this deficit but probably have the same attitude as the Minister of France when Marie Antoinette is supposed to have asked the Royal French Finance Minister "What are we going to do about the deficit" and he is reported to have replied, "Nothing, Madam, it's far too serious".

Undoubtedly we cannot sit idly by and allow year after year to pass with increasing deficits to be passed on to future generations. It is well accepted that we cannot solve the deficit problem in one clean sweep; however, we certainly have the obligation to start. The Congress should immediately gain control of Federal spending and by this I mean the size of the Government payroll that has continually expanded under each President. The numbers of Federal employees must be brought under control.

Another area I wish to comment about is the placement of the Social Security funds in the General Fund. The facts that the receipts from our Social Security payments are added to the General Fund and that the deficit is rising drastically place this agency's assets in a very dangerous position. I urge you as a member of the U.S. Senate to again establish the Social Security funds in their own private treasury wherein they can act independently from our Federal treasury. The use of Social Security funds to partially offset the deficit is nothing more than playing games with this long-established agency's creditability.

Another area I would appreciate your immediate attention to is the U.S. Postal Service utilizing our stamp money to conduct experiments with aerospace companies for vehicles to deliver the mails. There are competent automobile, truck, and even farm equipment companies with tremendous experience for building over-the-road vehicles. I do not feel that the companies selected by the Postal Service to do their experimental design work are proper and have attached an editorial from the Laredo, Texas, newspaper published December 28, 1984, for your reading. Please review this article carefully for it needs immediate attention.

***



PAGE 4A THE NEWS FRIDAY DECEMBER 28, 1984 LAREDO, TEXAS

editorial/comn

Postal proposal wasteful

Extensive testing of prototype vehicles for the U.S. Postal Service at the UniRoyal Test Track north of town is a welcome addition to Laredo's flagging economy, but the corporations whose prototype vehicles are being tested raises serious questions about how the Postal Service plans to spend public money in the acquisition of some 100,000 vehicles over the next nine years.

Not one of the three firms with vehicles in the test program is a major or even minor manufacturer of automobiles or other motor vehicles in large quantities. The firms are Ling-Temco-Vaught (LTV), Grumman Aerospace and Fruehauf Corp. Major U.S. automobile and truck manufacturers are not included in the testing program which would lead to purchase of the postal fleet.

LTV manufactures a variety of products, including aircraft, aerospace equipment, and a variety of military equipment. Its principal effort in the manufacture of motor vehicles is the Hummer, a proposed replacement for the Army's Jeep to which the Defense Department is committed despite a series of problems with the vehicle during testing, including a strong tendency to snap driveshafts.

Grumman Aerospace has had considerable experience in manufacture of aircraft and military equipment, as well as aerospace equipment, but apparently its experience in motor vehicle manufacture has only included the electric-powered moon rover and possibly limited passenger bus manufacture, neither of which could qualify the firm as a volume manufacturer of motor vehicles.

Fruehauf has long been engaged in the manufacture of trailers for 18-wheel tractor-trailer rigs, and was briefly engaged in the manufacture of passenger buses. The firm's manufacture of trailers has been quite successful, but its venture into bus manufacture was unsuccessful financially.

The News seriously questions why the Postal Service is looking to manufacturers not engaged primarily in motor vehicle manufacture in seeking 100,000 motor vehicles over a nine-year period—an amount which would be only a drop in the bucket for General Motors, Ford, Chrysler or American Motors over that same period. The automobile manufacturers also would stand to produce the vehicles less expensively since that's the business they are in, and their products most likely would be more economical than the 21.6 miles per gallon sought by the Postal Service for one-ton vans. The Postal Service proposal on its face appears to be wasteful of public funds.

GARRY TRUDEAU

PRESENT NEEDS OF THE FARMER

Senator **Quayle**. I wonder if you might just describe what is the present situation with the farmer from your perspective and what needs to be done?

Mr. **Webb**. OK.

Well, one of the things that needs to be done is the farmer needs to have an opportunity. The opportunity that the farmer needs is to be brought out of his situation through the farm loans like they have been, and I do not like those because all this does is project them further into the future. But basically let us free the farmer and make a real businessman out of him like everybody else. Let us quit fooling around with all the subsidies. And I can say that truthfully and openly because I own a farm. I do not farm it, but we have people who do farm it. And each year those farmers get further in debt.

And basically we have got to do something or you and I are not going to have the food that we know on our table today.

Senator **Quayle**. Let me say that, unlike French history, that this deficit is serious but not too serious to do anything about it. It has got to be done.

I appreciate the research and effort you put into your testimony. How do you think that the deficit ought to be reduced? Should we do it by spending cuts or tax increases?

REDUCE DEFICIT BY CUTTING GOVERNMENT EMPLOYMENT

Mr. **Webb**. Thank you for asking. I appreciate that.

The first thing you should do is cut Government employment. We have increased Government employment every President that has been there, every administration, call it what you want. The number of Government employees has grown by leaps and bounds. These are where your first large cuts should be.

As referred to earlier, when I went through the Grace Commission I was really amazed. The Federal Government, all they really need to do is to go through the heart of the W.R. Grace Commission and pull it out, and it is there for you. It was done beautifully. The only thing of it is that special interest groups have to be reckoned with, and we realize that. But you have to start. It takes a hard look and a hard person or a hard unit to go down through it and do it. But it has to be done.

Senator **Quayle**. There are some recommendations in there that can certainly be implemented. I know one of them that was implemented was the fact that we required the Federal Government to deposit its checks that it received within 3 days. Believe it or not, you are a businessman so you would not have that problem. You get checks, you deposit them in a reasonable amount of time. But just requiring the depositing of checks within a 3-day time period, we save the Government $100 million a year. OK, $100 million a year, $1 billion over a 10-year period of time.

TAKE SOCIAL SECURITY OUT OF THE GENERAL FUND

Mr. **Webb**. May I tell you another personal thing that bothers me.

During the Johnson administration, they took the funds from the Social Security and transferred them over to the U.S. General Fund in order to—wait a minute. It is reported that this was done in order to hide some of the national deficit during the Vietnamese situation.

I would ask you, use your powers. Let us get the Social Security money out of the General Fund. Let it be back in its own where it can gather interest. It will be much more self-supporting than it is in the General Fund, not growing interest, but sitting there, making the national debt look smaller.

You are not fooling anyone. No one is fooling anyone.

Senator QUAYLE. In other words, you would be willing to allow the investment of the Social Security funds in private investment?

Mr. WEBB. I would put them out in the interest of the money market funds that are available.

Senator QUAYLE. Well, let me tell you I appreciate your testimony. There is a lot of creative thought there, and I appreciate the work that you put into it and it has been very helpful.

Mr. WEBB. Well, I appreciate the opportunity.

Senator QUAYLE. Thank you very much.

OK. A final group is Mr. Paul Juday and Mr. Robert Hale.

Is either one here? Apparently they are not. They did not make it, which is understandable.

Yes?

Ms. TOOPS. I am not on the list but I would like to make a few remarks.

Senator QUAYLE. Oh, sure. We have about 5 minutes so come forth.

STATEMENT OF CAROLYN TOOPS, TAXPAYERS ASSOCIATION OF VIGO COUNTY, INC., TERRE HAUTE, IN

Ms. TOOPS. I am Carolyn Toops, executive director of the Taxpayers Association of Vigo County.

Our organization is primarily interested in property taxes. And I just want to put a few things into historical perspective.

Revenue sharing was established in 1972. And Indiana's major tax restructuring came into effect in 1973. As you are well aware, the property tax controls put limits on the amount of money that could be raised and spent by local communities. There have been various changes by the Indiana General Assembly through those years. But revenue sharing, of course, has been a part of funds from Federal sources, but money that local governments could use within certain guidelines.

HOW VIGO COUNTY HAS USED REVENUE SHARING

The mayor and Mr. Ray have spoken of how the city has used revenue sharing. As an observer, I just want to point out how the county, Vigo County, and some of the townships have used the revenue sharing that they have received over a period of years.

Basically, the county has used much of the money for some capital improvements, including an addition to the Vigo County Home, and they also used some of it to build—to rebuild a building that housed the boiler system for the courthouse, and these were measured expenses.

The county has also used a lot of this money to purchase bituminous materials and other things like that to be able to do some work on the county roads. And as you know, the highway funds come from tax revenues basically, and during the time when those revenues were down, there was just less for the State to collect and keep for State purposes and then distribute back to the local units. OK. So the county has used quite a bit.

Both city and county have used a lot of the revenue sharing for some other capital expenditures such as vehicles for law enforcement agencies and things like that. The townships are the only source of revenue because what they have basically is the property tax which is under tight control. And the townships in this county have used a lot of their revenue sharing for poor relief. Other ones in more rural areas have used revenue sharing to provide fire protection, much of which is done through volunteer fire departments in this county. So they have come to rely on the townships basically for fire protection and for poor relief. And the proceeds are for different uses from what the city and county has had to do.

RESTRUCTURING TAX SYSTEM MAY HAVE TO BE CONSIDERED

I think I really just wanted to point this out. Now, in the face of decreasing or total elimination of revenue sharing it would seem to me that the State then would have to probably give serious consideration to restructuring the tax system again. There have been various changes over a period of years which have tended to loosen the controls that we have.

I would also like to point out that Indiana's major tax reform, or whatever you choose to call it, took place long before California got into their proposition 13.

So I just wanted to point out the effect of elimination of revenue sharing, what it would have on our State tax collecting measures. I simply wanted to bring that out.

Thank you.

Senator **Quayle**. Well, thank you very much for coming, and thank you for your testimony. It will be part of the record.

Ms. **Toops**. Thank you.

Senator **Quayle**. At this time, let me make a part of the record a statement of Mr. M. Jay Mitchell.[1]

This hearing is adjourned.

[Whereupon, at 10:42 a.m., the committee adjourned.]

[The following statements were submitted for the record:]

---

[1] See p. 214.

DEPARTMENT OF ENGINEERING
201 City Hall
17 Harding Avenue
Terre Haute, Indiana 47807
812-232-4028

[redacted] David A. Schmidt, P.E.
P. Pete Chalos, Mayor

February 7, 1985

Senator Dan Quayle
United States Senate
Washington, D.C. 20510

Re: Proposed Budget Decisions

Dear Senator Quayle:

I am writing to you concerning the proposed budget cuts. I serve as City Engineer for the City of Terre Haute, but, since I am married and raising two children, I also consider myself a concerned citizen. As a citizen of Terre Haute, I am concerned for not only the present, but my children's future as well. I feel the proposed budget cuts will not only jeopardize the safety, but the potential for finding work, for present and future citizens of this City.

Although many departments, and the potential for relocation of businesses to the City, will suffer greatly from the proposed elimination of Federal Revenue Sharing, Urban Development Action Grants, and Mass Transit Funds, my department will be directly affected by the anticipated elimination of Community Development Block Grants.

Community Development Block Grants (C.D.B.G.) have been used to revitalize areas, within eligible sections of the City, which have deteriorated over time. The reconstruction of these areas consists of curb, gutter and sidewalk replacement, overlaying the pavement with asphalt, and in many cases improving or providing stormwater drainage. I would urge you to take the time to tour the reconstructed areas to see how the improvements upgrade the asthetics of the respective neighborhoods.

The City Engineer's office has been responsible in recent years for providing construction inspection, and in some cases, engineering design, for these C.D.B.G. projects. By providing these services, we have been able to reduce our fees to consultants, enabling us to use the funds we save to upgrade these neighborhoods at a faster rate.

Re: Proposed Budget Decisions
February 7, 1985
Page -2-

In order to provide the aforementioned services, we have created a staff consisting of a project engineer and two inspectors. For the 1985 calendar year the salary for the project engineer is $23,800.00, and for the two inspectors a salary of $13,068,00 is being paid. Considering the cost for engineers, and qualified quality assurance inspectors, I certainly don't feel these individuals are overpaid. It is fairly obvious that if C.D.B.G. funds are eliminated, we would not have a need for the continued existence of these positions.

In addition to losing these people, the loss of funds for other improvements and construction within the City diminishes the need for other personnel within my office.

In my opinion, for those cities which are emerging from the recent recession, the proposed cuts in Federal Revenue Sharing, Urban Development Action Grants, Mass Transit Funds, and Community Block Grants are going to do much to reverse this trend.

I appreciate the chance to air my concerns on the budget cuts. I respectfully request that you consider how cuts of this nature will inhibit Terre Haute from providing needed services to its citizens.

Respectfully yours,

Dave Schmidt

David A. Schmidt
City Engineer

DAS/jc

DEPARTMENT OF FINANCE
205 & 206 City Hall
17 Harding Avenue
Terre Haute, Indiana 47807
812-232-9611

Sharon S. Betzeier, Controller
P. Pete Chalos, Mayor

February 12, 1985

Senator Dan Quayle
359 Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Quayle:

After reading about the many cuts that have been suggested by President Reagan, the one that shocks me the most is cutting out of Federal Revenue Sharing. The effect on the City of Terre Haute, and I'm sure a lot of other Cities throughout the United States, will be devastating.

The State of Indiana has a frozen tax levy so we are limited to the amount of revenue that can be raised by a unit of Government, and our taxpayers, who pay local property tax, expect something in return for their tax dollars. It takes all of the City's property tax dollars just to try to get by on a day to day operation. With the many increases granted by the Public Service Commission on utilities, we can not survive on the local level without assistance.

As you can see by the attached list, the City of Terre Haute has spent its Federal Revenue Sharing funds on items such as police vehicles, which we could not afford on our local budget. If the Federal Revenue Sharing is cut we can not purchase these vehicles out of our local budget. Without the vehicles, we would have a Police Department inadequately equipped to keep the crime rate down and handle local traffic problems. After all, you and I know that our Police Officers are not going to use their own vehicles to do the job and we would not expect them to do so.

The City Fire Department has already purchased ambulances and a pumper. We anticipate the purchase of a new aerial truck in 1985. The Fire Department has also used the Federal Revenue Sharing funds to repair emergency vehicles in order to have them recertified, since the funds were not available within its own budget.

Sen. Dan Quayle
February 12, 1985

Page #2

The City has spent its Federal Revenue Sharing very wisely as you can see by the list. We have built a Street Garage and purchased new equipment for the Street Department, along with vehicles and equipment for other Departments. There has been renovation within the Parks, tennis courts repaired and lighting installed within the Parks.

It will be very difficult to lose better than a half million dollars and continue to provide these same services and improved equipment. In fact, it would be impossible. The City of Terre Haute, along with many other Cities, will suffer drastic cuts in necessary services if Federal Revenue Sharing ceases to be available. I hope that you will look carefully at this issue and consider possible cuts elsewhere, maybe in foreign aide. Send our federal money back to our local units of government. We need FEDERAL REVENUE SHARING for basic City services and for future City progress and growth.

Very truly yours,

Tharon S. Geckeler

(Mrs.) Tharon S. Geckeler
Controller

FEDERAL REVENUE - 1973 - 1984
EXPENDITURES

1973

Salaries	66,083.46
Grants & Subsidies	8,000.00
Police - Vehicles	6,500.00
Street - Equipment	92,162.32
Street - Improvements	290,333.19
Debts - Transit Utility	164,000.00
	627,078.97

1974

Salaries	124,188.43
Grants & Subsidies	12,000.00
Street - Equipment	307,232.74
Street - Improvements	642,176.32
Police - Vehicles	34,769.50
Park - Equipment	74,060.81
Park - Services Contractual	10,054.92
Fire - Equipment	13,755.41
	1,218,238.13

1975

Salaries	128,302.48
Grants & Subsidies	12,000.00
Police - Vehicles	86,561.47
Street - Improvements	870,968.44
Parks - Materials	11,055.87
Parks - Equipment	36,978.14
Parks - Services Contractual	15,059.41
Parks - Renovation - Fairbanks Park	1,394.59
- Game Courts	9,452.45
- Memorial Lights	3,634.00
- Torner Renovation	4,538.07
- Collett Park Pavilion Renovation	2,568.80
Cemetery - Equipment	3,380.00
Fire - Repairs to Truck	3,909.18
Police - Radio Testing Equipment	3,466.10
- Reader Printer	6,195.00
	1,199,464.00

1976

Salaries	139,146.67
Grants & Subsidies	15,000.00
Police - Vehicles	61,765.55
Park - Tennis Courts	27,855.00
- Materials	10,512.74
- Equipment	45,182.60
- Torner House	2,460.00
- Collett Park	431.20
- Renovation - Fairbanks Park	42,729.66
- Renovation - Rea Park	3,000.00
Street - Equipment	143,430.50
- Construction	324,013.13
Data Processing	39,470.00
1976 Memorial	6,899.00
	861,896.05

1977

Breakdown not available

1978

Salaries	287,770.58
Hyte Community Center	32,234.27
Street - Improvements	605,923.10
- Equipment	66,800.50
Park - Equipment	130,592.53
- Bldg. Improvements	2,259.20
- Materials	49,652.10
- Pro Shop	19,599.84
Cemetery - Garage	15,561.00
- Equipment	33,977.50
Fire - Ambulances	58,049.94
Grants & Subsidies	12,000.00
	1,314,420.26

1979

Salaries	477,814.97
Grants & Subsidies	27,000.00
Park - Playground Equipment	3,498.00
- Building Improvements	2,160.00
- Equipment	52,742.04
- Materials	99,994.69
- Lighting Collett Park	7,929.00
- Rest Rooms - Deming Park	23,494.00
- Tennis Courts - Rea Park	31,870.00
Hyte Community Center	44,691.26
Fire - Ambulance Supplies	9,451.46
Cemetery - Equipment	8,500.00
Tree Removal	16,805.99
New Bus Fund	14,088.48
Transit Utility	400,000.00
Police - Vehicles	85,484.96
Weigts & Measures - Vehicles	4,905.50
	1,310,430.35

1980

Salaries	799,982.80
Hyte Community Center	33,913.25
Police - Vehicles	11,783.28
- Gas Tank	5,000.00
Park - Tennis Courts	2,480.00
	853,159.33

1981

Salaries	161,090.25
Police - Equipment	16,790.00
Park - Equipment	10,774.00
- Improvements Blds	12,985.17
- Materials	64,931.28
Hyte Community Center	34,586.18
Fire - Ambulance	24,385.00
- Other Supplies	81,276.33
- Repairs	37,129.78
Legal - Services Contractual	6,970.80
- Refunds & Awards	1,400.00
Mayor - Equipment	2,227.50
Controller - Equipment	6,429.29
Misc. Repairs	6,201.63
	467,177.21

1982

Salaries	171,751.72
Police - Vehicles & Equipment	223,554.66
- Other Supplies	9,136.80
Park - Road repairs	24,714.15
- Equipment	54,748.38
Fire - Services Contractual	19,849.37
Street - Equipment	203,425.00
- Resurfacing	272,340.41
Legal - Services Contractual	13,007.30
- Refunds & Awards	28,600.00
Data Processing	23,726.00
Misc. Equipment & Repairs	1,647.25
Hyte Community Center	32,853.67
	1,079,354.71

1983

Salaries	192,000.80
Police - Vehicles	150,000.00
Radios	3,118.50
- Remodeling Basement	23,099.56
Park - Repairs	36,761.24
- Equipment	29,997.10
Hyte Community Center	34,994.12
Fire - Services Contractual	38,046.87
- Fire Pumper	94,070.89
- Radios	5,155.50
Grants & Subsidies	26,000.00
Legal - Refunds & Awards	10,203.84
Street - Materials	68,817.37
- Signs	12,622.51
- Equipment	72,451.13
Cemetery - Vehicle	6,805.50
- Mowers & Trimmers	10,400.00
Utilities	125,000.00
Misc. Equipment	2,847.76
	942,392.69

1984

Salaries	184,702.91
Hyte Community Center	34,473.62
Fire - Vehicles	25,593.64
- Ambulance	28,641.50
- Radios	2,173.00
Legal - Equipment	10,344.08
- Services Contractual	3,269.50
Police - Satelite	6,816.00
- Remodeling	7,322.22
Traffic Signals Truck	32,500.00
Engineer - Vehicle	7,617.77
Park - Rea Park Club House	16,021.75
- Pool Repairs	62,396.39
Grants & Subsidies	38,500.00
Street - Garage	300,870.43
- Equipment	15,610.00
Data Processing	80,000.00
	856,852.81

TERRE HAUTE FIRE DEPARTMENT
Headquarters
1300 Fort Harrison Road
Terre Haute, Indiana 47805
812-466-1421

Robert W. Osborn, Chief
P. Pete Chalos, Mayor

Senator Dan Quayle
U. S. Senate
Washington, D.C.

As a taxpayer and a citizen of this city, I feel we have a right to receive Fedreral Funds due to the fact that the safety and welfare of the citizens of the city and our fellow Americansare at stake. The taking away of the Federal Revenue Funds would hamper the safety of all concerned in the fact that it would cause a cut back in services now provided to the community. The vital services such as Police, Fire and Ambulance are the ones going to be hit the hardest, and as a citizen I feel these are the ones we should be concerned with. If we lose a part of these services, who knows what will be next to go.

Let us combine efforts and work together to try and keep this money from being taken away from our communities.

Let them look at other avenues for their cut backs, I am sure there is someplace else they could cut back in their spending that could be used to continue with Federal Revenue money and give the people the needed services in the community.

If there is a cut back in employees, then that would mean more on unemployement which must be paid from some source of monies. Also with the frozen property taxes we are unable to allocate money from this area.

Buy cutting Federal Funds they are creating more problems on the local front for all concerned by putting people on unemployement and possibly welfare.

I am sure there are other areas they could use to cut back and keep the necessary services that are vitally needed.

Robert W. Osborn

Robert W. Osborn, Chief
Terre Haute Fire Department

TERRE HAUTE FIRE DEPARTMENT
Headquarters
1300 Fort Harrison Road
Terre Haute, Indiana 47805
812-466-1421

Robert W. Osborn, Chief
P. Pete Chalos, Mayor

FEDERAL MONEY IS USED FOR:

EQUIPMENT FOR APPARATUS
NEW FIRE TRUCK
NEW VEHICLES - CAR#1-#2-#7-#8-#5
OFFICE EQUIPMENT
SUPPLIES
PURCHASE OF RADIOS
REPAIRS TO EQUIPMENT
NEW AMBULANCE
SUPPLIES
REPAIR PARTS
REPAIRS TO BLDGS.

WHAT SERVICES WOULD BE CUT.

CUT BACK IN SERVICES ON THE DEPT.
CUT IN EMPLOYEES.

C.D.G.B. MONEY USED FOR.

BUILDING NEW FIRE HOUSE.

IN 1981 WE RECEIVED $280,000.00 FROM FEDERAL MONEY, HAD WE NOT RECEIVED THIS WE WOULD HAVE HAD TO CUT BACK 24 MEN TO HAVE THE MONEY TO DO WHAT WAS NEEDED THAT YEAR. OR CUT THE AMBULANCE SERVICE AND 12 E.M.T.s FROM THE DEPARTMENT.

IN 1985 WE WOULD HAVE TO CUT BACK 22 MEN TO HAVE THE MONEY TO PURCHASE JUST ONE PIECE OF EQUIPMANT FOR THE DEPT. FOR THE PRICE OF APPROX. $300,000.00 HOPING NOTHING ELSE WAS NEEDED.

Housing Authority of the City of Terre Haute
P.O. BOX 3086 ONE DREISER SQUARE TERRE HAUTE, IN 47803-0086 (812) 232-1381

Lockport Road
Margaret Avenue
Dreiser Square
Garfield Towers
Morton Lewis Court
McMillan Square
HOPLIF
Garfield Gardens
Turnkey

Patrick J. Barder
Executive Director
and Secretary

THE HOUSING AUTHORITY OF THE CITY OF TERRE HAUTE

AN ASSISTED HOUSING STRATEGY FOR THE EIGHTIES

This report embodies a concise and well-reasoned assessment of America's public housing needs and potential. The research and thinking that led to this report represents years of experience in providing decent, safe and sanitary housing to America's very low income families. The Authority has seen programs come and programs go, some very successful and effective, some well intentioned but poorly designed. From these experiences, the Authority presents a public housing strategy for the eighties which takes into account need, ability and the conditions and limitations of today's government to create a program for improving America's housing.

This report approaches this severe need by proposing four general strategies:

I. Maintenance with some modifications of selected existing efficient and successful programs

II. Production of housing via creative and very low cost development mechanisms without the need for future subsidies

Ruby H. Stableton *Chairman*
Wesley J. Lyda *Vice-Chairman*
Charles Dickson *Commissioner*
Michael T. Ellis *Commissioner*
Todd Rockstroh *Commissioner*

III. Major program revisions and improvements of selected existing housing programs

IV. Realignment of scarce funds and human resources to produce cost effective and stable operations.

The objective of the following statement is to represent and serve the myriad needs of Executive Directors of Housing Authorities of all sizes, in all regions of the nation, especially Indiana. Pursuing our goals to improve assisted housing, the Authority will work with Congress, federal agencies and with all interested groups to improve the nation's housing programs. The issues are immense and increasingly complex and our cooperative energies must be harnessed to address these problems and prepare future programs.

In order to achieve the objectives of good government set forth by this Administration, the Authority has unanimously adopted a direction which will insure all elected officials and their staff members at the local, state and federal levels, a presentation of the issues which affect the housing of low income families in Amercia and cost effective policies for those issues.

Congress recognized in 1937 that along with the commitment of national resources for housing the poor, came a necessary precondition - local self control.

The Authority recognizes the contributions of both the federal government and the network of local public housing authorities (PHAs) toward meeting the housing needs of the poor.

Few would argue that local resources are sufficient to meet the housing needs of the very poor. It has long been established that federal funding is necessary to provide for the development and maintenance of housing that serves lower income families. In many parts of the country PHA rents, based upon a family's ability to pay, are often below the cost of utilities, let alone the other costs of operation.

In addition what private, profit motivated landlord would even consider housing a family of six, eight, ten or twelve with an income that consists of welfare assistance only?

The answer to this question has made publicly assisted housing an indispensable component to this nation's housing policy since 1937.

The Authority believes that traditional public housing fills a void that otherwise would go unmet. The continued growth of proverty incomes so low as to not even cover the cost of utilities in some parts of the country convinces us that there are simply no viable alternative housing for many of our citizens other than the traditional public housing program.

The Authority believes that its primary objective should be the advancement of public housing tenants from a position of dependency to one of self-sufficiency.

The Authority believes that such an objective can only be accomplished through a comprehensive program of housing services aimed at increasing public housing residents' social and economic independence.

The Authority regards the quest for better housing for the poor as a joint mission, in which a suitable share of local and federal resources are brought into play to combat the severe housing problems of the nation.

Various federal housing programs have been applied, in many instances, in a haphazard manner, often to the detriment of locally available housing services. Programs such as Sections 8, 202, Public Housing, state programs, Farmers Home and others are duplicative, too expensive and in need of consolidation.

The Authority believes that PHAs should serve the housing needs of families, the elderly, and the handicapped with income that fall short of the amount necessary to afford safe, decent and sanitary housing. In these income ranges, PHAs are best suited at working toward innovative and creative ways of meeting housing needs without the use of direct federal subsidies. The Authority believes that through the use of such local development tools, PHAs can expand their housing services, and at the same time reduce the direct subsidies role of the federal government. The federal government can assist PHAs through legislative incentives such as liberalization of the use of multi-family and single family tax-exempt bonds, help with meeting land acquisition and front-end development costs, etc. The cost to the federal treasury will be reduced if PHAs are allowed to become more self-sufficient.

The role of private-public partnerships in the development and ownership of assisted housing is already explored. Many PHAs are already involved in such liaisons to the benefits of their communities, and the constituencies they serve. Many joint efforts have resulted in substantial improvements in local housing conditions. The Authority believes that the federal government should encourage the PHA's to expand their efforts at innovative and productive public/private endeavors.

NEW PRODUCTION/MANAGEMENT METHODS

The Authority supports the Housing Development Grant Program (HODAG), The Rental Rehabilitation Program, and a continuation of the Section 8 Existing and Moderate Rehabilitation programs. Above all, we support the continuation of traditional Public Housing management programs.

TAX EXEMPT AND CREDIT ENHANCEMENT ALTERNATIVES

The Authority supports the use of tax exempt multi-family revenue bonds in the development of lease/options of single family houses. The program would operate without the use of direct federal housing subsidies whatsoever. The cost to the Treasury from the tax loss by virtue of the sale of tax-exempt bonds, is made up for by increased jobs, an improved local tax base and specific contributions to the local economy. The other costs of administration, construction, and maintenance would be built into the cooperative efforts of the PHA, private investors and tenant families. The monthly payments of the tenants participating in this program are approximately one-half of the payment that would be required under a typical FHA 203b purchase program, with the tenant retaining all appreciation above the PHA appraisal at the time of leasing.

Using tax-exempt revenue bonds, new homes are constructed and leased to qualified families for a period of eleven years. Families participating in the program buy options to purchase the homes at the time of leasing for $3,000 or 5% of the purchase price, whichever is higher. This insures the right of a family to purchase a home for a predetermined price at the end of the 11-year lease. The lessee's rent equals principal, interest, taxes, insurance, and housing authority management fee. The lease payments are at or below the amount that would be required to rent the home on the open market, and are, in fact, lower than the federal contribution to similar housing rents.

The Authority supports the use of credit enhancement mechanisms. Credit enhancements are arrangements with third parties to provide additional security to bond holders for the timely payment of principal and interest on bonds. To achieve a AAA bond rating, the standard price is generally 1½% annum of the face amount of bonds issued. The credit enhancement method lowers the premiums to 1% of the face amount of the bond issued and can be retained by the issuer at the end of the bond period provided there is no default.

Programs such as the ones above, enable PHAs to income-blend moderate income families with lower income families and thereby assist more for less. The same concept for financing has even wider applications in straight income-blend rental programs. There are many successful variations of this theme being tried throughout the nation.

The cost savings to the Treasury of this approach versus a Section 8 New Construction Program and a typical 202/Section 8 Project, in the same jurisdiction, would result in $521.55 per unit month savings over the Section 8 New Construction Program, and $333.05 per unit month savings over the Section 202/Section 8 Program.

OCCUPANT OWNERSHIP OF PUBLIC HOUSING

The Housing Authority rejects the Urban-Homestead Act of 1984 as an ill conceived and intellectually defective piece of legislation.

While the bill, at first blush, appears to have some beneficial aspects for low-income public housing tenants and the taxpayer, it simply does not stand up to closer scrutiny.

The language in the bill would lead us to believe that "all public housing" is located in slum areas, and standing vacant due to its run down condition and poor management. This is absolutely not true. The vast majority of public housing is located in the mainstream of the communities in which it is provided, is well maintained, and has long waiting lists.

Even by HUD's own statistics, less that 5% of the public housing stock is vacant, and that percentage is located in the largest and most depressed urban centers of the nation. Furthermore, if units are sold to current tenants at one-quarter of the market value as suggested by the authors of the bill, there would be even less of an already scarce commodity to house all those poor people waiting for assistance. Public housing was envisioned as a resource that would provide a helping hand to poor families on the way up the economic ladder.

The Urban-Homestead Act would give away an expensive national resource at great costs to the taxpayer, while playing a cruel hoax on the tenants they entice with the prospect of homeownership. The dismal failures of the 235 programs are proof of this. The American taxpayer knows what it costs to own and maintain a home. Over forty percent (40%) of public housing tenants have income only from welfare payments. Fifty percent (50%) are elderly and/or handicapped. They cannot possibly generate enough income to pay for the cost of maintenance, principle and interest, insurance and taxes on the dwelling. For the reasons above, the Authority objects to the adoption of the provisions and development in the Kemp-Symms proposal.

The Authority supports attempts to provide access to the "American Dream" (a home of our own) for those income groups to whom such a concept applies. This concept is, however, a political and economic fantasy for those on the lower end of the economic scale and such concept will, in fact, harm them. In addition, the vast majority of those families who reside in public housing are receiving a vast array of social services. The impact of ownership upon those families is completely ignored in the legislation.

ACCREDITATION

The Authority believes the concept of peer group PHA accreditation to be viable, within well established and controlled guidelines. HUD has stated 90 per cent of all PHAs are effectively managed and efficiently operated. These PHAs should be identified and accredited. The purpose of accreditation is to reduce HUD monitoring of effectively managed and efficiently operated authorities, thereby allowing HUD to concentrate its limited manpower and dollars to more effectively assist the authorities with major problems. This would result in reduced costs for both HUD and all PHAs. For those PHAs unable to initially qualify for accreditation, peer group technical assistance could be made available if it is warranted.

We believe legislation would be required in the establishment of any accreditation program to insure well defined line responsibilities as well as the make-up of the committee itself. Requests for technical assistance should draw upon a pool of well qualified PHA experts in PHA operational disciplines such as finance, housing management and maintenance. From Authority's own experience, PHA Executive Directors attending our training sessions and conferences have gained more from opportunities to compare program notes and fellow practitioners than from any published set of rules, guidelines or advisories.

The purpose of accreditation will be to guarantee a management review process that will 1) let qualified people critique areas of property management that they are knowledgeable of 2) give HUD access to impartial information which it can utilize for whatever purposes are warranted, and 3) eliminate useless and wasted efforts at communicating areas of disagreement. The accreditation committee itself should be composed of PHA management peers with representation from small, medium and large PHAs as well as HUD Housing Management.

DESEGREGATION

All dual racially segregated waiting lists must be eliminated immediately. Housing authorities should be permitted the flexibility and authority to use methods which would be effective in that particular locality to achieve integration.

The Authority believes HUD should emphasize the enforcement of existing fair housing laws in the private housing market in addition to its effort to integrate public housing.

In summary, except for those agencies that have deliberately maintained segregated projects, housing authorities are in the best position to set and meet their own goals in desegregating their facilities and should not be burdened with remedies that will be impossible to achieve.

TRADITIONAL FUNDING VIA TAX EXEMPT PUBLIC HOUSING NOTES

Under section 628 of the Deficit Reduction of 1984, short term public housing agency notes may become taxable securities. The tax exempt nature of public housing securities has long contributed to providing the most value for each dollar of public housing construction and rehabilitation funds appropriated by Congress. These securities may now be subject to the arbitrage provisions of the Internal Revenue Code, as opposed to the tax-exempt requirements as provided under Section 11(b) of the Housing Act of 1937. An alternative has been offered; to have HUD sell the notes to the Federal Financing Bank.

Sales to the FFB would raise the interest rates on public housing notes to taxable levels, roughly double their present tax-exempt yield. The Housing and Urban Rural Recovery Act of 1983 contains a specific prohibition against it. Thus, major legislative change would put an exhorbitant strain on an already limited public housing modernization and construction appropriation. Congress intended that these notes be tax-exempt and the Housing Authority strongly opposes efforts to convert these securities to a taxable status or HUD selling the notes to the Federal Financing Bank.

Tax-exempt securities are our salvation as local housing authorities and should be defended at every level and every opportunity.

MAXIMUM RENTS AND A.F.D.C. MINIMUM RENTS

There is a disparity in the amount of rent charged the working poor verses the social services recipient. In the case of the working person, we base our percentage on the gross income and with the social service recipient we base it on a net income. To eliminate that disparity the Authority recommends a flat minimum rent for social service recipients.

The Authority recommends a minimum rent for social service recipients based on 30% of the local FMR or the shelter and utility allocation as defined by the Social Service Department in each state, whichever is greater.

The Authority recommends this proposal be included in the maximum rents legislation introduced by Mr. Molinari.

To maintain an economic balance in our developments, the Authority supports the legislation introduced by Mr. Molinari calling for maximum rents, with the maximum rent being established at the appropriate Fair Market Rent (FMR) level.

This bill should also include a maximum income limit for continued occupancy.

SECTION 8

Since the inception through the Housing and Community Development Act of 1974, as amended, the Section 8 Existing Housing Assistance Payments Program has proved to be a stable and acceptable program serving the needs of our disadvantaged low-income senior, disabled and family population. Because Section 8 has demonstrated its viability, the new housing voucher program must not be used as a replacement program, but rather as a complimentary program designed to fit situations that cannot be addressed by regular Section 8. The Authority strongly supports the continuation of the Section 8 Existing Program, in fact, requests enhancements to it by the way of HUD's close review and remedy to the following issues of concern.

SECTION 8 EXISTING

Primary Issue: For the majority of PHA's maintaining reasonable administrative fees is crucial to efficient and effective program operation.

Secondary Problems: Cumbersome regulations; duplication and confusion caused by state-run programs.

In order to effectively maintain the Section 8 Existing Program, on a nationwide basis, and adequately underwrite the costs of all Section 8 activities, the current level of administrative fees must continued at 8.5%. There is no statistical evidence to support a reduction in this percentage without affecting program performance adversely.

Current departmental efforts in reducing paperwork have not yet reached the level of anticipated successes. In fact, current regulations still prohibit the flexibility and local determination originally promised. HUD should minimize overly strict regulations on verifications.

Finally, areas with state-run programs duplicative of existing PHA services have caused numerous local problems resulting from state intrusion into local areas with operating PHAs. HUD should insist that state-run programs be limited to those areas where no PHA is operating a Section 8 Program.

SECTION 8 PORTABILITY

Primary Issue: A nationwide portability program requires more study and consideration before implementation of the program as outlined in the Federal Register of October 19, 1984.

The Authority does not support the "mobility" concept in the Section 8 certificate or housing voucher program without careful consideration being given to the following areas:

1. Administrative requirements - the inclusion of a proposed division of administrative fees which appears ludicrous as well as impossible.

2. Local government authority - rights under each Annual Contributions Contract
   Local government acceptance - lower vs. higher welfare paying states

3. Community resources - does receiving community have resources available? Can initial PHA afford to lose certificate when it has long waiting lists

4. Aggregate demand - HUD needs to assess the actual demand for portability and the cost-benefits of providing this option in currently operating programs.

SECTION 8 FAIR MARKET RENTS

Primary Issue: The current methodology for determining FMRs, while not causing any short-term problems, does not adjust to changing local rental market conditions.

Secondary Problems: Annual adjustment factors and publication delays. The current method of calculating FMRs is based on the 45th percentile of all units in the market area. In addition, recently HUD has not included rental data from outlying areas of primary metropolitan statistical areas (PMSAs). The overall impact of these changes has been to slow the pace of annual FMR increases. In the short run this has caused minimal program disruptions; however, PHAs are recognizing increasing difficulty maintaining safe, decent, and sanitary units in the program. The narrow margins now built into FMR schedules will cause serious program disruptions if any sudden shifts in the economy occur (i.e., inflation), or if local rental markets tighten. HUD should go back to using a realistic definition of area market rents, utilizing market data that accurately represents FMRs in the area.

In addition to the potential impact of changes in FMR computations are the inadequate annual adjustment factors. In tighter rental markets, routine market rental increases are exceeding allowable adjustment factors, thereby further reducing the stock of available housing.

Finally, the Department has a historical record of publishing rents and adjustments with retroactive implementation dates. This is both unduly burdensome and inefficient. Knowing that this information must be evaluated and revised annually, the Department should be able to provide this data in a timely manner.

SECTION 8 INCOME ELIGIBILITY

Primary Issue: The change in eligibility to only those below the 50% median income is overly restrictive and not consistent with local determination of need.

The provision in the 1981 Omnibus and Reconciliation Act which limits the number of new admissions of applicants (50% of median income) to Federal Rent Subsidy Programs, although designed to serve the needy applicant, has the following opposite effects:

- It has accelerated economic impaction of very low income households into assisted housing projects i.e., ghettos;
- Eliminated PHA's ability to successfully serve a broad range of equally needy citizens;
- Eliminated PHA's ability to operate a financially viable housing program thereby increasing the need for additional federal subsidies.

The likelihood that the Federal outlays for subsidies will be increased to fully compensate for the loss in rental income is rather remote - particularly in view of the federal budget deficit. Therefore, PHAs will be forced to operate with less income which, in turn, will lower the level of management, maintenance, security and other vital services.

HOUSING VOUCHERS

The Section 8 Existing Housing Certificate Program has proved to be a very acceptable program to the private sector (landlords), generally well understood, and uncomplicated in its operation. It is imperative that the new housing voucher program not eradicate this acceptance and confuse owners and tenants.

It is perceived that housing vouchers will provide assisted families with a greater choice in housing selection, provide an incentive to "shop" for "affordable" dwelling units and allows the private landlords to operate on a more open market basis

COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM (MODERNIZATION)

The Authority recommends a guaranteed appropriation of funds for non-routine capital expenditures on an annual basis according to the following distribution formula:

> 25% of the Performance Funding System (PFS) Formula Expense Level will be paid annually and automatically as additional annual contributions or operating subsidy for the sole purpose of providing a permanent and predictable source of capital to be used exclusively on non-routine expenditures.

This additional operating subsidy will be paid in addition to what is due the PHA as operating subsidy for its routine operations under the PFS regulations. Expenditures made or scheduled to be made from the revenues derived from this additonal operating subsidy shall be subject to normal operating budget review procedures pertinent to the PHA's schedule of non-routine expenditures.

Interest income derived from prudent investment of available revenues shall be exempt from any recovery mechanism or reconciliation procedure, but must be used exclusively for approved non-routine expenditures.

A revolving discretionary fund equal to 10% of the total U.S. annual distribution shall be set up and administered by the Secretary, as necessary, to support unforeseen local or regional needs that may arise.

with the elimination of the "rent cap". These perceptions are overly optimistic. Very low income families are not mobile and sophisticated housing consumers and the likelihood of the family shopping for and locating an "affordable" (below the market rate) unit is remote, especially in larger metropolitan areas with tight housing markets.

The current housing voucher regulations are sketchy and incomplete, and require a significant rewrite prior to full scale implementation. In its current format, the regulations provide no protection for either owner or tenant and no incentives for owners than than the ability to raise rent. Abusive landlords will be able to raise rents at will; there is no protection against simple inflation and/or annual rent escalations, resulting in the family eventually being priced out of the unit. Participating owners, concurrently, will have no protection against abusive tenants who leave damaged units or unpaid rent.

The voucher program will pay less administrative fee, 85% of the present Section 8 Existing fee, despite no less an administrative involvement by PHAs. Contract execution, program monitoring, outreach, Housing Quality Standards inspections, etc., are still the responsibilities of the PHAs.

The Authority recommends that this concept of "vouchers" be placed in its proper place among assisted housing programs with the appropriate and already proven safeguards included in the administration of it.

The following cost benefits will be achieved by the use of this formula distribution:

1. A predictable budgetary limit derived from existing funding mechanisms is achieved immediately for both HUD, the PHA, Congress and ultimately the taxpayer.
2. Modernization, C.I.A.P., Reserve for Replacement, Emergency, Special purpose or whatever funding it is called, is consolidated into the operating budget review process eliminating an untold amount of repetitive paperwork, staff time and other resources from both the PHA and Departmental viewpoint.
3. A maximum degree of local autonomy coupled with a prudent degree of federal oversight is achieved with both the distribution method and the operating budget review process.
4. The absolute dollar distribution from the Department's budget is adjustable pursuant to mathematical necessity, funding availability, congressional discretion and/or Departmental requirements with a minimum of program distortion.
5. Competition between PHAs, the Area Office, the Regional Offices, and ultimately the Central Office is eliminated with respect to minimum and basic level of funding.
6. Extraordinary requirements are arguable at the appropriate Department levels.

SUMMARY

All of these strategies require close cooperation between local communities, the federal government and the private sector. The private sector is, in fact, the lynchpin to the success of our proposed production program and deemphasis of depending on federal monies is an essential element of all three strategies.

As the table of contents reflects, each component of this four prong plan is detailed in the aforementioned pages. The Authority urges Congress, the federal bureaucracy and private sector leaders to review these proposals and join us in implementing this assisted housing strategy for the eighties. Your views, recommendations and support are welcome and necessary.

DEPARTMENT OF INSPECTION
203 City Hall
17 Harding Avenue
Terre Haute, Indiana 47807
812-232-5823

Thomas A. Sheaff, Inspector
P. Pete Chalos, Mayor

February 12, 1985

U.S. Senator Dan Quayle
U.S. Senate Budget Committee
Washington, D.C. 20510

Gentlemen:

I would like to take this opportunity to comment on President Reagan's proposed budget of the United States of America for fiscal year 1986.

As Building Inspector for the City of Terre Haute, Indiana, it is my responsibility, among other duties, to oversee the inspection of substandard buildings and houses within my jurisdiction. When a building is determined to be either a fire hazard, health hazard, or structurally unsound, the building is condemned, and the owner is ordered to demolish the building. When the owner either refuses or is financially unable to perform the demolition, it becomes the responsibility of the City of Terre Haute to effect the demolition.

Presently, Community Development Block Grant funds are used to finance the cost of this demolition. A minimum of ($50,000.00) fifty thousand dollars is earmarked for such demolition annually. Elimination or phasing out of these monies will leave the City of Terre Haute without sufficient funds to demolish these eyesores.

Fire, a common destroyer of homes, can potentially affect each and every neighborhood, without regard to economic status. Thus every single citizen of the City of Terre Haute has an interest in the city's ability to have these hazards eliminated.

Vacant and blighted houses are very often in the neighborhoods where the median incomes are in the lower class. These people however, do not deserve to have to live for years next to or near a vacant structure which harbours vagrants harmful to the children of the neighborhood, harbours rats which transmit disease, or is a potential candidate for arson.

Attached to your copy of this letter are two common examples of the types of buildings I am referring to. Who are you hurting if you eliminate Community Development Block Grant funding? The answer is everyone in the City of Terre Haute.

Government is supposed to protect the health and welfare of its citizens. I submit to you that the health of our communities is at least as important as maintaining large Department of Defense budgets! Cut federal assistance to our community and you are cutting the very "grass roots" that you tell us mean so very much to you at election time.

There is a great committment on the part of the City of Terre Haute to provide good services for its citizens. We are all committed to the elimination of blight and unsafe buildings, but we need your continued support and financial assistance.

I therefore ask you to consider the following recommendations:

1) Maintain the Community Development Block Grant funding; and
2) Maintain Federal Revenue Sharing; and
3) Send a powerful message back to President Reagan that his defense budget will be cut exactly the same as all of the social programs he wants cut or eliminated.

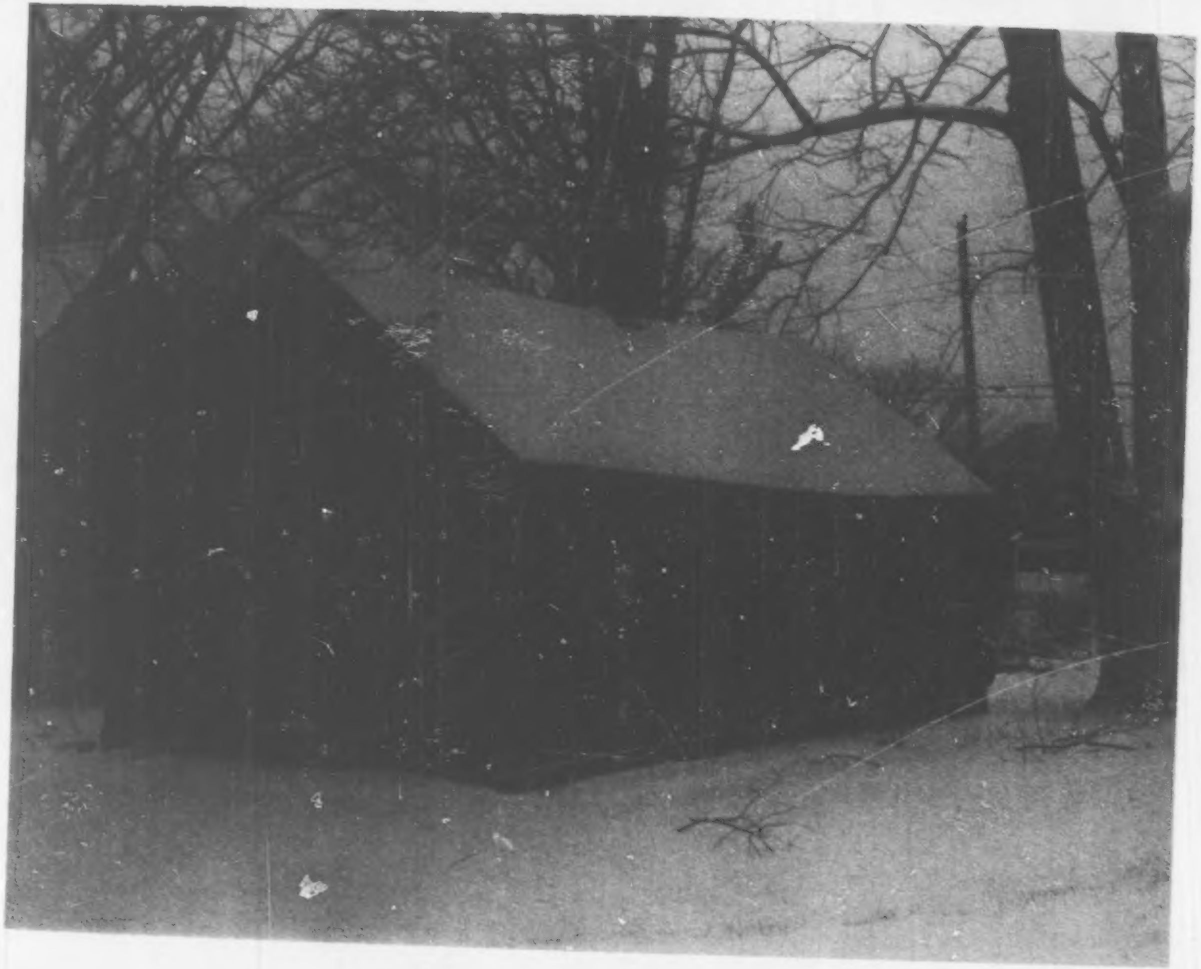
We can all live with equal cuts in all programs, but to single out some of the most beneficial programs ever to come from Washington D.C. to Terre Haute, Indiana is very unfair.

Budget deficit reduction is very important but not at the expense of the people of this nation. Stand up for the people and show us your committment to keeping our communities safe and healthy for us and future generations. Thank you very much for your anticipated support and belief in these valuable federal programs.

Respectfully,

Thomas A. Shoaff

Thomas A. Shoaff
Building Inspector
City of Terre Haute, Indiana



LEGAL DEPARTMENT
202 City Hall
17 Harding Avenue
Terre Haute, Indiana 47807
812-232-2508

Robert O. Effner, City Attorney
Robert F. Hellmann, Assistant City Attorney
P. Pete Chalos, Mayor

February 11, 1985

Senator Dan Quayle
Senate Budget Committee
524 Hart Senate Office Building
Washington, D.C. 20510

Re: Budget Committee Hearing in Terre Haute, Indiana on February 12, 1985/Impact of Budget Decisions

Dear Senator Quayle:

In my capacity as head of the Legal Department for the City of Terre Haute (Corporation Counsel), and in my individual capacity as a citizen and tax payer residing in Terre Haute, Indiana, I submit this correspondence for inclusion in the official record of the United States Budget Committee Hearing in Terre Haute, Indiana on February 12, 1985.

I am particularly concerned regarding the proposed cutbacks and/or termination of Federal Revenue Sharing to municipalities. Said cutbacks would have a very detrimental impact upon the Legal Department of the City of Terre Haute, Indiana. Presently, the Legal Department of the City of Terre Haute, which city has over sixty thousand citizens, consists of myself as corporation counsel, an assistant city attorney, and a secretary. This deparmtent is responsible to offer legal counsel and to advise all departments of the City, draft and or examine all contracts and other legal documents for the departments of the City, prosecute citations for violations of city ordinances, prepare resolutions, ordinances, and other legal documents for the Common Council of the City of Terre Haute, and process and handle all claims and or litigation for or against the City of Terre Haute. Funds available to municipalities in the state of Indiana have already been severally diminished as a result of other federal cutbacks in funding, general inflation and lost property tax revenue as a result of the economic hardships on various employers, and the property tax freeze in the state of Indiana. The legal department has shared the burden of said cutbacks.

I assumed responsibilites as corporation counsel for the City of Terre Haute in January, 1980. Since that time, hundreds of laws suits have been litigated on behalf of the City of Terre Haute. Presently the budget for the Legal Department is less than Eighty Thousand Dollars ($80,000). This includes appropriations for salaries, office supplies, law library, utilities, equipment and furniture, services contractual (which includes costs of litigation such as depositions, expert witness fees, transcription of court records, etc.), and money available for settlement of law suits brought against the City. The money alloted for settlement of cases is the sum of Thirteen Thousand Dollars ($13,000). As I am sure that you are aware, the sum of Thirteen Thousand Dollars ($13,000) is inadequate to settle all but very minor law suits.

In the past few years, the legal department has depended on Federal Revenue Sharing monies to supplement its budget in the areas of services contractual and monies available for settlement of law suits. Federal Revenue Sharing Money has also been used to employ an attorney as legal adviser to the Terre Haute Police Department. Said attorney's duties have included representation in law suits involving the Terre Haute Police Department. As has been the case for virtually every municipality in the United States, said claims have sharply increased, particularily in regard to civil rights claims brought under 42 U.S.C. §1983,1984. Because of the large and increasing amount of litigation brought against municipalities, it would present this department with extreme hardship to litigate all claims against the Terre Haute Police Department without the services of a legal adviser. Furthermore, the absence of a legal adviser could certainly have the effect of increasing claims against the police department because of inadequate legal counsel regarding methods and procedures.

In regard to law suits in general, as you are certainly aware, Thirteen Thousand Dollars ($13,000) is very inadequate in order to settle the large number of law suits pending against a city the size of Terre Haute. Failure to have sufficient funds to settle cases may cause certain law suits to be litigated that should be settled, and thus expose the City to large judgments in cases that could have been settled for much less. Also, inadequate funds available in my services contractual account may inhibit the successful prosecution or defense of a law suit on behalf of the City of Terre Haute, and also prevent the City of Terre Haute from obtaining adequate legal counsel in those specialized areas of the law which require expert guidance.

As a private citizen and tax payer, I also object to the cutback or elimination of Federal Revenue Sharing Funds. The City of Terre Haute, as well as other municipalities in the country depend upon Federal Revenue Sharing monies to provide necessary services to its citizens. Such services include police and fire protection against threats to life, health and property, as well as bus services, wastewater treatment, paving and maintenance of streets, etc. Cutback or elimination of Federal Revenue Sharing monies would have a definite and substantial detrimental impact upon the quality of life in the City of Terre Haute, as I am sure it would in other cities throughout the United States.

The aforesaid detrimental impact upon municipalities in this country and Terre Haute, in particular, is particularly inequitable in light of the proposed increases in the defense budget and the unnecessary waste in various federal departments and agencies reported on a daily basis by the media. As a department head and as a private citizen and tax payer, I can appreciate the need for getting a handle on the national debt. However, I submit that the equitable way to proceed would be to freeze all federal budgets or to make "across the board" cuts in all areas of the federal budget rather than selectively cutting programs which already have born the burden of reduced funding.

In conclusion, as head of the Legal Department for the City of Terre Haute, Indiana, and as a citizen and tax payer of said city, I wish to go on record as requesting that the federal programs for revenue sharing with municipalities be continued at its present level.

Thanking you for this oportunity to be heard, I am

Sincerely yours,
Robert O. Effner
Robert O. Effner

ROE/pr

PARK AND RECREATION DEPARTMENT
208 City Hall
17 Harding Avenue
Terre Haute, Indiana 47807
812-232-2727

Patrick R. Ralston, Superintendent
P. Pete Chalos, Mayor

January 31, 1985

Mr. Dan Quayle
U.S. Senate
SH 524 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Quayle:

I am writing this letter as a concerned taxpayer and also as the Superintendent of Parks and Recreation for the City of Terre Haute.

I am very much in favor of continued funding of Revenue Sharing for all cities throughout the United States. Cities depend on these funds to maintain a good quality of life. The funds are used for the purchase of much needed equipment to operate the various City Departments. If this funding is eliminated, the overall quality of life for our cities would be drastically reduced.

Land, Water Conservation Funds from the Department of the Interior have been greatly reduced the past several years. These funds have been for the upgrading of City and County Park Departments on a matching basis. The elimination of these funds would greatly affect the quality of life for most Americans.

I feel an across the board freeze on increased federal spending would help the budget deficit, but the elimination of entire programs would be disastrous. If we are all to share in reducing the Federal budget deficit, all Federal Programs should be cut equally. The total elimination of some Federal programs just doesn't seem fair.

Sincerely,

Patrick R. Ralston

Patrick R. Ralston , Superintendent
Parks and Recreation

PRR/mmd

TERRE HAUTE POLICE DEPARTMENT
Office of the Chief
105 City Hall
17 Harding Avenue
Terre Haute, Indiana 47807
812-238-1661, ext. 54

Gerald W. Loudermilk, Chief
P. Pete Chalos, Mayor

city of terre haute

January 31, 1985

The Honorable Dan Quayle
United States Senate
Washington, D.C. 20510

Dear Senator Quayle:

As you might well imagine, Law Enforcement, like many other departments in local government, is extremely concerned about possible curtailment of Federal Revenue Sharing Funds.

The "trickle down affect" so often used today would not be the correct wording to those of us in Law Enforcement, but rather a "deluge" felt not only by the police department but by everyone in the community.

As a department head, I have the responsibility to keep my organization abreast of current trends by continually updating personnel and equipment. With the already economic sanctions (frozen State tax rate) being forced upon local agencies I dare to imagine the effects of more budget restraints.

With the curtailment of Federal Revenue there will be a corresponding reduction in services provided to the public. For example:

(1) All comminications operators would be replaced by patrol officers.

(2) Patrol vehicles would not be replaced as needed, realizing more maintenance cost and down time per unit.

(3) The cost of new vehicles would now become a line item within the budget therefore taking monies from other budget areas salaries.

(4) Salaries would therefore be disrupted bringing about future "uneconomic" wages to police officers as the starting salary of a first year patrolman is $11,783.00, and the total collapse of recruitment of new personnel.

(5) The elimination of the position of Legal Advisor to the department would mean the possibility of reversals of cases and civil suits against the department and its officers.

(6) Federal Revenue Monies fund the school crossing guards which protect 7,109 students in Terre Haute. A total of 53 crossing guards are paid $61,342.20 from Federal Funding.

It is my contention that Congress cannot completely eliminate Federal Funding to local governments without creating chaos that would be felt for years to come.

I appreciate your consideration of our position on such an issue of vital importance.

Sincerely,

Gerald Loudermilk
Chief of Police
Terre Haute Police Department

GL/rad

DEPARTMENT OF REDEVELOPMENT
209 City Hall
17 Harding Avenue
Terre Haute, Indiana 47807
812-232-0018

Marc Elliott, Director
P. Pete Chalos, Mayor

February 12, 1985

The Honorable Dan Quayle
United States Senate
254 Russell
Senate Office Building
Washington, D.C. 20510

Dear Senator Quayle:

I am writing to you concerning the President's proposed budget cuts. As Director of the Terre Haute Department of Redevelopment, I am responsible for the administration of the City's Community Development Block Grant Program and Urban Development Action Grant Program. Over the past three years (1982 to 1985) the city has been able to improve the quality of life for its citizens with the revitalization of its neighborhoods, parks, housing and streets. From 1982 to 1985 the city has expended $8.4 million dollars for improving its neighborhoods, parks and housing stock.

Under the Urban Development Action Grant Program (which is designed to promote economic development and jobs with federal and private sector participation), the city expended $1,000,000 to rehabilitate residential and commercial structures. More recently, the city was awarded a $650,000 Urban Development Action Grant to assist Sony Corporation of America in building a plant in Terre Haute. The city is assisting other firms as well with UDAG applications in order to retain and expand jobs and industry.

I believe that without the Community Development Block Grant Program (which has brought over $16,000,000 to our community) and the Urban Development Action Grant Program, Terre Haute's ability to improve the quality of life and to bring jobs to the community, will be dealt a fatal blow.

In my opinion, Terre Haute's success as a growing and healthy community will be reversed without its primary tools for continuing its objectives of community and economic development.

Sincerely,

Marc Elliott
Marc Elliott,
Director

ME:nc

OFFICE OF THE MAYOR
City Hall
17 Harding Avenue
Terre Haute, Indiana 47807
812-232-9467

P. Pete Chalos, Mayor

February 11, 1985

Dan Quayle
United States Senate
Washington, D.C. 20510

Dear Senator Quayle:

I am writing to express to you how truly vital Federal Revenue Sharing funds are not only to the continuation of my department, but also the welfare of our citizenry.

Federal Renvenue funds in Terre Haute, and many other like cities, are not lavished on wasted and unnecessary programs, but are used to equip and employ the most basic of services. Federal Revenue Sharing is used for sidewak improvement, tree removal, street repair, emergency snow removal supplies, equipment purchase, and the salaries of those who must do the work.

I can tell you from experience, there is no way we can maintain our city streets on our yearly budget. We need the federal support in the most vital way. Federal Revenue Sharing is our tax dollars sent to you, and it is only fair for us to get something back in return to help us provide much needed services.

Thank you for your consideration. I trust you will vote in behalf of the people of the State of Indiana.

Sincerely,

Forrest Swan

Forrest Swan,
Terre Haute
Street Dept.

AMERICAN
ASSOCIATION
OF RETIRED
PERSONS
26 YEARS OF SERVICE

INDIANA STATE LEGISLATIVE COMMITTEE

CHAIRMAN
Mr. H. C. "Red" Benedict
406 Walnut Street
Vevay, IN 47043
(812) 427-2238

VICE CHAIRMAN
Mr. Charles E. Belt
3516 Circle Boulevard
Indianapolis, IN 46220
(317) 251-5883

SECRETARY
Mr. Russell Cosper
1325 Sunset Lane
West Lafayette, IN 47906
(317) 463-9845

712 Highridge
Greencastle, In 46135

Testimony-
U.S. Senate Budget Committee Field Hearings
Senator Dan Quayle-Terre Haute, In.
February 12. 1985

By Dr. Robert H. Farber, Indiana State Legislative Committee AARP

Senator Qayle:

I greatly appreciate this opportunity to testify on the direction of the Federal Budgetary Policy on behalf of the Indiana State Legislative Committee of the American Association of Retired Persons. The AARP consists of a membership of approximately 18 million persons in the nation of which more than 335.000 live in Indiana. We have more than 3300 local chapters throughout this country.

We are greatly concerned about the size of the budget deficit and our AARP organization has placed the reduction of the deficit in a high priority position in our current goals and objectives.

We feel that the huge Federal deficit means the following:

1. The deficit threatens the soundness of our economy which also jeopardizes Social Security and Medicare Trust Funds.

2. A depressed economy threatens the purchasing power of the elderly as well as other citizens.

3. A large and growing deficit means that a huge debt will be passed on to our children and grandcildren.

Vita R. Ostrander
AARP President

Cyril F. Brickfield
Executive Director

National Headquarters: 1909 K Street N.W. Washington, D.C. 20049 (202) 872-4700

AMERICAN
ASSOCIATION
OF RETIRED
PERSONS
26 YEARS OF SERVICE

INDIANA STATE LEGISLATIVE COMMITTEE

CHAIRMAN
Mr. H. C. "Red" Benedict
406 Walnut Street
Vevay, IN 47043
(812) 427-2238

VICE CHAIRMAN
Mr. Charles E. Belt
3516 Circle Boulevard
Indianapolis, IN 46220
(317) 251-5883

SECRETARY
Mr. Russell Cosper
1325 Sunset Lane
West Lafayette, IN 47906
(317) 463-9845

-2-
Farber Testimony

In evaluating methods to reduce the deficit we feel that the overall program must meet two objectives: 1. It must be fair, so that all levels of society participate and 2. It must be effective in achieving the goal of a balanced budget.

1. To be fair, the program should recognize that sacrifices have been made in previous years by the Elderly in terms of Medicare Cuts and delayed COLA payments in Social Security. Therefore additional sacrifices should be made by those persons and corporations who have sufficient resources for this purpose.

2. To be effective, AARP urges that the deficit be lowered by recognizing the forces responsible for the deficit. Specifically:

a. Slowing the rate of growth in defense budgets.
b. Restoring the revenue base eroded by the 1981 tax cut program through Tax reform and simplification.
c. Support Federal and State programs to reduce Health Care Costs including charges by Hospitals and Physicians.
d. Eliminating excesses in domestic programs other than human services.

The notion that Older Americans as a Group are well to do is completely erroneous. The median household income of the elderly is only half that of the non-elderly. Elderly women living alone have a 33% poverty rate. Dependency on Social Security in this group is in 85-95% range. For those elderly in the minority group poverty exceeds 40%.

Furthermore, older persons have borne the brunt of budget

AMERICAN
ASSOCIATION
OF RETIRED
PERSONS
26 YEARS OF SERVICE

INDIANA STATE LEGISLATIVE COMMITTEE

CHAIRMAN
Mr. H. C. "Red" Benedict
406 Walnut Street
Vevay, IN 47043
(812) 427-2238

VICE CHAIRMAN
Mr. Charles E. Bell
3516 Circle Boulevard
Indianapolis, IN 46220
(317) 251-5883

SECRETARY
Mr. Russell Cosper
1325 Sunset Lane
West Lafayette, IN 47906
(317) 463-9845

reductions in the period 1983-1985, especially in cuts in Medicare and Social Security. At the current rate of reductions in Health programs such as Medicare and in Social Security benefits the net combined reductions will approximate$100 billion between 1982-1989. All this is in spite of the rapidly escalating health care costs.

We older Americans are not equipped to endure additional costs which would cause hardships to many persons. Such cuts would also tend to destroy public support for these programs which are firmly supported by the American Association of Retired Persons.

Most of us in AARP experienced the Great Deprssion in the early 30's so we know what it is to cut expenses and to sacrifice. Now-at this time-All of us at all levels of income and age must do what we can to bring down the deficit but let us make it fair and effective.

Respectfully submitted
Robert H Farber
Robert H. Farber
Member-Indiana State Legislative Committee
of AARP

Vita R. Ostrander
AARP President

Cyril F. Brickfield
Executive Director

National Headquarters: 1909 K Street, N.W., Washington, D.C. 20049 (202) 872-4700

COMMENTS REGARDING THE BUDGET FREEZE

Prepared by

Robert Hale

For

THE SENATE BUDGET COMMETTEE FIELD HEARING

February 12, 1985

Terre Haute, Ind.

Clearly the government has a rightful role in affecting the economy through monetary policies. Spending at the federal level helped bring us out of the depression of the thirties and has continued to grow, involve more programs and allow, if not encourage more people to become dependant upon the Federal Government as a source of income. Yesterday's solution has become today's problem and we have had too much of a good thing.

Spending by the Federal Government has become excessive and has created a deficit surpassing perhaps 200 billion in 1985. This tremendous and persistent deficit has finally done two things; produced high real interest rates and a strong dollar relative to the 1970's, when agriculture and many other segments of the economy went through a major overhaul.

In the 70's the world beat a path to our door, the American Farmer became the food supplier to the world and inflation took off spurred by monetizing to finance government spending. The gains from this inflation created equity that in many cases was used as leverage to finance expansion or cover up operating losses. Lenders and producers main concern was equity, not whether the business could generate enough profit to cash flow, and rightfully so since the federal government provided plenty of cheap dollars and inflation was anticipated to remain high. My point is that producers, lenders and the Federal Government share in the blame of the mismanagement of the 1970's to some extent. But the fact remains that we developed and industry based on negative real interest rates and a weak dollar that was created by the government's monetary and fiscal policy.

The policies of the Federal Reserve shifted to a more restrictive money supply in the 1980's essentially putting the brakes on an over heated economy and slowing inflation. We brought inflation under control but government spending continued unchecked creating large federal deficits resulting in high interest rates and a strengthening in the value of the dollar.

When the dollar exhibits this kind of strength our foreign customers are encouraged to buy products from other countries with a more favorable exchange rate and domestic consumers are encouraged to buy less expensive imported goods. According to to USDA the strong dollar cut the value of U.S. agriculture exports by six billion dollars in the 1982-83 marketing year.

Although the confidence in the economy has improved, high interest rates have discouraged investment in the private sector and created a high cost of debt servicing. Agriculture related debt has risen to 212.2 billion up from 155 billion in 1980.

Protectionist attitudes develop when foreign trade is realigning to compensate for the fluctuating exchange rates. Last year a bill was introduced to restrict steel imports and in late December the South Korean government announced voluntary reductions in their steel exports to the U.S., the next day they announced a purchase of corn from China, rather than from the U.S.

The continued strong dollar relative to the 70's will further develop this protectionism and more pressure will be placed upon Congress to erect trade barriers that will trigger counter measures by our trading partners and further reduce U.S. agriculture exports.

It is not a question of whether or not to freeze the budget but how and when are we going to reduce the deficit. How we deal with the deficit and how we carry out the monetary and fiscal policies will have more impact on American agriculture than anything else that we can do.

First every function of government will have to be analyzed and some eliminated. It won't be politically easy but you must decide which programs are a proper role for the government. Don't use an across the board percentage reduction. That would be assuming that the reason or decision to establish a program was accurate and still valid.

To achieve the type of changes that will be required the lions share of budget cuts will have to come from the two areas that make up 70 percent of the expenditures. Those are direct payments to individuals and defense. However, every cost should be reviewed.

Second, government must be held more accountable for the cost that exist. The Grace Commission report pointed to a enormous number of obvious wastes in ferderally controlled spending, ranging from exorbitant costs for nuts and bolts for the military to unnecessary government weather offices. No other business could operate the way the federal government does and hope to remain in business. There is plenty of room for reform and cost cutting is one way to help reduce the deficit.

Finally to bring revenues in line with costs tax increases must be considered. Although there is no good method we must find ways that have as little an impact on economic incentives and long term growth as possible. Existing incentives to induce savings and investment in the private sector of the economy must be maintained and strengthened.

We in agriculture are willing to do our share of accepting cuts, however, they need to be made in areas that are doing the least to accomplish desired goal.. .

But we still need to address the overall farm problem or problems. Michael Boehljie, Agricultur Economist from Ia. State University says the concerns are: the commodity price and cost relationship, and the financial burden arising in the use of borrowed capital; the sharply higher interest rates of the last few years and the deflation of assets. He maintains that because the financial problems are not primarily explained by commodity prices they cannot be corrected by commodity programs. To put it bluntly there is no chance whatever that federal programs can lift prices to a point that will enable heavily indebted farmers to pay current interest charges.

According th the USDA 6% of agriculture producers are leveraged to the 70% level, 145,000 farmers and as much as 24% of the farm debt is in this category.*

To illustrate what would be needed to save a large majority of these ~~borrows~~ borrowers let me give you an example. All the cash needs excluding land costs on my operationin 1985 will be 195 dollars per acre.

---

* FINANCIAL CONDITIONS OF FARMERS AND FARM LENDERS 1984, USDA, ERS

A farmer whose asset to liablilities ration is 70% and owns real-estate purchased within the last eight to ten years could easily owe $1,500 per acre requiring interest of at least $195 bringing the total cash requirements, and not reducing any debt, to $390 per acre. With corn yeild of 125 bushels per acre he would need to receive $3.12 per bushel for his crop at the farm gate. I don't think you can maintain a program to support prices to that level but neither do I know how you address the farmer who built his business based on high government support prices. This financing problem originated mainly in the shifting monetary policies of our country. It can be relieved only by measures designed specifically for the purpose.

According to the USDA the failure rate among agriculture commercial banks lagged behind that of other comparable sized banks until recently. In 1983 seven such banks failed; thus far in 1984, sixteen have failed out of a total of sixty bank failures. PCA absorbed loan losses of $109 million for the entire decade of the 70's in comparision to $464 million from 1980 through 1983. The ability of the community of farm lenders to deal with the current numbers of farms and proportions of debt in trouble can be questioned. If interest rates move up from here, as predicted by some as a result of a slowing in the rate of investment of foreign capital into our economy, I would suggest that we haven't seen any problems like that would generate. A one percent change in interest rates can affect the total farm costs by about 2 billion dollars.

In a recent article of Prairie Farmer, Richard Kohls, Professor of Agriculture Economics at Purdue University, made the point that farm related spending is big business in this country. On the average one farmer spends $55,000. The level of net farm income and the health of Indiana's rural communities and agribusinesses are tied closely together. In 1982, net farm income for the state was approximately $716 million. Of this total, an estimated $422 million ($.59) of every dollar was spent in Indiana, at the retail level. Thus it is expected that retail sales in the state will be quite responsive to changes in the level of farm income.*

The economy is on the road to recovery. Much has already been done to control inflation and create incentives for savings and investment. Use a common sense approach to bring expenditures in line with receipts or we will develop more problems for future generations.

For agriculture, determine what we are trying to do, increase income, stabalize markets, increase efficiency or help those in the greatest trouble. But keep in mind that the high interest rates and the recently strong dollar are the biggest problems we face in agriculture and if you address those the agriculture economy will also be on the road to recovery.

---

* Farmers and the Rest of the Economy: The Importance of Connections
Drs. Thomas W. Hertel and Martin T. Pond, Estension Agricultural Economists, Purdue University

CURRENT AGRICULTURAL ECONOMY, DEBT SERVICE PROBLEMS AND FUTURE GOVERNMENT POLICY

Paul Juday, Executive Director - ILMA

CURRENT AGRICULTURAL ECONOMY

The current agricultural economy has not participated in the economic recovery of the last two years enjoyed by the auto industry and other segments of the economy. Amid chronic crop surpluses, commodity prices in general fell and have failed to come back. Cash receipts, adjusted for inflation, are down 21% from their peak in 1979. The 1983 payment-in-kind program tried to ease that problem by idling productive land and simply giving commodoties to producers to sell for cash. The price boosting did not work and prospects for the near term future are dim. Crop prices at harvest are little above production costs. Export demand is weak and has little chance of increasing because of a 25% increase in the value of the dollar against most of the major currencies of the world. Futures markets during the past several months offered few opportunities to hedge a profitable return for commodities produced.

The 5 year decline and stagnation of commodity prices has had a broad effect on the entire range of business which provide materials and services to agriculture production. Producers, in an effort to stay afloat financially, sharply curtailed purchases of machinery, autos and household items which in turn caused many retailers to close businesses and put employees off payrolls. This result has had the effect of lowering the quality of life in many rural communities.

Net farm income for 1984 is estimated to be near 29 billion dollars. The two preceeding years, 1982 and 1983, saw 22 billion and 16 billion respectfully. From this 3 years of low net annual income there has risen some serious problems which are beginning to force a restructuring of the agricultural community and economy from that which we have known for the past fifty years.

DEBT SERVICE PROBLEMS

In order to understand the dilemma facing the government and the agricultural community it is necessary to have some idea of how much debt is carried by agriculture, who holds it and how it is supported by assetts.

For the purpose of clarity and simplicity the following statistics are close approximations and outline the gravity of the eminent problem.

Total agricultural debt in the United States is currently 215 billion dollars. It is almost evenly divided between real estate and non-real estate. The biggest holder of this debt is the Farm Credit System (FCS) with a totalof 67 billion. The FCS is primarily the Federal Land Bank and the Production Credit *Associations. The next largest holders are Institutions (insurance etc.) and individuals. This amount is 65 billion. Third on the list are private commercial banks who hold 48 billion. Smallest of the four groups is the federal government through the Farmers Home Administration (FmHA) and the Commodity Credit Corporation (CCC). The government total is 35 billion.

In October of 1979 the Federal Reserve Board made a decision to tighten significently the money supply and raise the reserve requirements for the banking system of the United States. The stated purpose at that time was to get inflation under control along with the money supply. This action followed on the heels of banking de-regulation which removed interest rate ceilings previously controlled by law. The result was sharply higher interest rates and declining commodity prices by 1982. Beginning in 1982 many borrowers began to have difficulty performing on the debt service and were being "rolled over" by their creditors. That practice has been continued to a great extent , for a percentage of borrowers, until the present.

In 1982 when commodity prices collapsed and interest rates were still extremely high, there began to be a serious erosion in farm land values. The decline in farm land prices has continued until presently forced sales of land and equipment will return only about one half to one third of their value at the height of inflation. This situation now threatens the assett base of the lenders in a very serious manner.

The challenge to the creditors is how to weed out the bankrupt borrowers, restructure shaky ones and at the same time avoid too many forced sales which might further erode land prices.

A look at the total picture gives us a peek at the magnitude of the problem and the difficulty facing creditors in their effort to manage the situation and avoid further depression of land values and a possible erosion of their assett base backing the credit.

With 215 billion divided equally between long term real estate and short term operating capital one can assume 10% rates on long term and 13.5% on short term and from that project annual interest payments of 26.5 billion due from a national net income figure during the last three years of 22.3(82), 16.1(83) and an estimated 29 in 1984. That amount is required for interest alone and makes no provision for principle repayment.

The announced intention to merge the PCA and FLB into a single organization is obviously a transparent attempt to buy time and to shore up the PCA's in the process.

The government's role in this plan was announced in September with the FmHA program of county by county review in every state in the country. This serious situation has in turn caused the government to rethink what farm policy should be for the future providing the present dilemma can be successfully resolved.

FUTURE GOVERNMENT POLICY

Any discussion of future government agricultural policy must begin with a review of the history of it's development in this country and it must be put in the context of current government political philosophy.

The first established agricultural policy for this country came about when William Penn convinced Queen Elizabeth of England that it was necessary to recruit the best farmers in the world and help them develop the frontier in order to feed the people in the colonies of North America and stop the uneconomic practice of importing foodstuffs. Those recruited were the Amish and Mennenites of Switzerland and they arrived in the very early 1700's.

From that time forward the policy of government was to encourage land development and commodity production through land grants and transportation assistance. With the collapse of the world's monetary system in the Great Depression of the 1930's and the advance of mechanization and technology; overproduction suddenly became the primary concern. It was strongly felt in many quarters that the welfare of the country was best served by maintaining a strong and productive "family farm" concept. To that end, the present system of agricultural subsidies was established and has continued to the present.

Changing political sentiments during the past decade has created a new atmosphere within which policy makers are now viewing agricultural policy. The buzz words are: conservative; de-regulation; cut waste; self help; biotechnology; etc.

The people who advocate a change want the government to fade from the agricultural economy and let commodity production be directed by market forces.

They point to the fact, especially now, that all of the billions spent on subsidies during the past fifty years have not prevented the current calamity. They argue that , conversely, the subsidies have retained inefficient producers whose production continually overloads the markets and penalizes the efficient. Further, it is pointed out, plentiful opportunities exist for forward pricing by contracts and hedges and these management tools should be used rather than government programs.

Stastically, most small farms are supported by off-farm income, and should be eliminated from consideration in agricultural policy discussion.

Other points made to strengthen the position are concerned with land conservation. It is not good public policy to have marginal, highly erodable land under cultivation. Un-subsidized, it is likely that this land would revert to grasslands and be utilized in animal agriculture.

The total number of viable commercial farms is significantly smaller than what the USDA or census figures define as a farm. It is therefore not considered to be a political risk among any sizeable block of national voters to discuss the end of government programs for agriculture. In fact some subsidies, such as tobacco, have become a political liability.

1985 will likely see the first serious debate about the direction of agricultural policy for the future. The question revolves around the desireability of continuing some kinds of subsidies, reduced subsidies, or let the market place control commodity production by unhampered price signals.

Senator Dan Quayle
Senate Budget Committee Hearings
Terre Haute, Indiana
2-12-85

Presented By:
Jim May
Wabash Valley Hydraulic Service, Inc
R.R. 23 Box 97
Terre Haute, Indiana

SENATE BUDGET COMMITTEE HEARINGS
TERRE HAUTE, INDIANA
2-12-85

I would like to thank Senator Quayle and the Senate Budget Committee for their interest in the views of their constituants

For the last 5 years hardly a week has gone by without hearing or reading about the federal budget and deficit and it's impact on the economy. The nations economists have shared differing views and could not agree on how much the deficit impacts the economic health of this country. Even President Reagan had softened his views on the relationship between the federal deficit and high interest rates. Is is no wonder the American people have been confused over this issue.

Now the vast majority of economists, politicians, business people and other citizens agree that this is our most pressing issue. We cannot agree, however, on how to solve the problem.

The taxpayors are not willing to pay higher taxes without a concerted effort from government to reduce waste and overspending. I see our federal government as a large business which is going thru the experience of a recession. When we graff the corporate structure we find the President as Chairman of the Board, the Senate and House as the Board od Directors and the appointees and bureaucrats as the middle management.

Now, this once profitable corporation decided to diversify and engage in other business which was not really familiar to them. We are finding that middle management and part of the Board of Directors lack the necessary expertise, loyality and committment to run his department efficiently. The corporation is operating in the red and on the verge of bankrupcy. The Board of directors are confused and cannot agree on a plan for profitability.

This corporations problems stem from having a corner on the market. The consumers are also the stockholders which provides for an unlimited amount of investment capitol. For the last 50 years the Board of Directors has been more concerned with pleasing boistrous groups of stockholders than with their position and paychecks than they are with the well being of the corporation as a whole. The employees, who make up nearly 1/3 of the voting stockholders, do not want to lose their jobs or their department to come under the knife of sound management.

Our Senators and Representatives must experience the same kind of belt tightening that American business is experiencing. They must put away those pet projects that are nice to have and are good ideas, but, unnecessary. We see business divest themselves of unprofitable subsidaries. So should government, example: In a recent report on consumer protection which deals with "bait and switch" rules in the food industry, it was discovered that these laws cost the American consumer 2 billion dollars annually to receive 1.2 billion dollars in benefits. This is just one of many such programs that shoul be eliminated.

Since 1981 businesses have had to put greater effort into purchasing materials and products at the best price possible. So should government. After hearing about $100.00 hammers, $1500.00 coffee pots and $10.00 nuts and bolts, the latest is $600.00 toilet seats. Should these things happen in the private sector the person responsible would be fired on the spot. I doubt such action has taken place in the government.

The private sector in the government streamline it's workforce. For a time this created high unemployment. Slowly, thru the economic upturn, these people are finding jobs again. The government has made only a feeble attempt at this project. The time has come to get serious about this problem. I am confident that those who might lose their cushy government jobs would soon find employment in the private sector.

For years it has been a common practice, in the private industry and government, for department heads to make sure they spend all of their department budget. If they did not their budget would likely be reduced accordingly for the next year. In recent years, the private sector has had to chance this practice. Departmental budgets were cut and those responsible were required to operate within their new budgets. The government should follow suit. If this works for industry, it will also work in government.

The "Grace Commission" report has pointed out thousands of ways to cut federal spending. True, many of their suggestions are politically unpopular. The rape of teh American taxpayer of 150 billion dollars annually to pay interest on our national debt is also unpopular.

I am not an economists, but I would like to share with you may "common sense" analises of our current economic rebound. Thru federal, state, and local government incentivies we have seen new business emerge and old businesses come back to life. Thru such federal programs as the Accelerated Cost Recovery System, Jobs Training Partnership Act and investment tax credits, coupled with similar state programs, the business tax burden has been greatly reduced. Add to this local incentives, such as deferred property taxes, and low interest rate Industrial Revenue Bonds, which are tax free to investors, we find we have "created" a healthy business climate. Looking back, the spend and tax policies of government coupled with tax bracket creep "created" a poor business climate.

My common sense tells me that the only way to insure future economic growth is to have a tax policy that allows business and investors alike the opportunity to make a profit that can be reinvested. When we have to give as much as 50¢ of each dollar earned to a government that allows so much waste, our incentives are taken away. .

What do we need? What can business support?

1. A constitutional amendment that would require a balanced budget for fiscal year 1989.
2. An across the board freeze of federal spending including military, at 1985 dollar amounts for 3 years. The use of the words "spending levels" is not acceptable. This would allow for adjustments which would defeat the purpose of the freeze. These 3 years would allow time to study and implement the recommendations of the "Grace Commission".

The "Grace Commission" reported ways to save $450 billion over a 3 year period and claims that even more could be saved. With total federal income in excess of $900 billion annually this equates to more than a 15% annual savings. If we phase in cost reductions of 5% in each of the next 3 years, while the budget figures remain constant, the net affect would be equal to adjusting our budget for inflation.

3. Tax reductions and simplifications triggered in 1989. With increase in spending brought to a halt and waste being eliminated, confidence will return to America's businesses and investors. Business in this country will flourish, jobs will be created and more revenue will flow into the coffers. Some tax reform bills being considered today call for a lower tax rate while eliminating currently deductable expenses. The net result is that business will pay higher taxes and lose the incentives to invest.

Just as business rewards it's employees for higher productivity thru bonuses and other incentives so should government reward the taxpayor. As we increase tax revenues thru higher employment and profits we should be rewarded with tax rate reduction. This philosphy must apply to all taxpayors. It is hard for an employee to get excited about going to work when he knows that 25%-30% of his time is donated to the government.

For the last 10 years we have battled inflation, high interest rates, high unemployment and higher taxes. The policies of the current administration has finally put us on the right track to economic prosperity. Without implementing a plan for fiscal responsibility, such as what has been outlined here, we are being warned of another recession. One doesn't have to be a mathmatical genius to understand the precarious situation we are in. It was recently reported that we paid $150 billion interest on our national debt in 1984. If we continue to run a budget deficit of $200 billion annually for the next 5 years our interest payments and national debt will double. We will be at a point of no return. High inflation, high taxes, high unemployment and high interest rates will return to devastate our economy.

During 1983,1984, and 1985 tens of thousands of small business people will have litterly put their lives and livielihoods of millions of their employees into the hands of Congress. We have been encouraged by these new incentives and the availability of "creative financing" to expand our businesses and start new ones. The decisions that are made in the next few months will not be felt until several months later. If the wrong decisions are made now, we may not survive. If the right decisions are made we will not only survive, but prosper.

I appreciate the opportunity to voice not only my opinion but also the opinions of most of my peers. We pray for your wisdom and foresignt.

Thank You

Jim May

STATEMENT OF M. JAY MITCHELL

Submitted to Daniel Quayle, United States Senator From Indiana at the Senate Budget Committee Field Hearing Conducted February 12, 1985 in the Federal Building in the City of Terre Haute, Indiana.

Senator Quayle and members of the Senate Budget Committee, my name is M. Jay Mitchell. I reside at 1826 North 8th Street, Terre Haute, Indiana. I serve in the capacity of General Manager of the Terre Haute Transit Utility, a department of the City of Terre Haute that is charged with the duty of providing public transportation services to the citizens of Terre Haute. I am here today as a representative of the Terre Haute Transit Utility.

Since becoming a city department in 1964, the Transit Utility has reliably provided bus service to the Terre Haute area. At present, the Utility operates a peak hour bus fleet of fourteen (14) buses which traverse eleven (11) bus routes covering approximately one hundred and sixteen (116) miles throughout the City of Terre Haute and West Terre Haute. Nearly ninety-five (95) percent of the population of the City of Terre Haute live within a one-quarter (¼) mile distance from any given bus route.

In addition to carrying over one-half million passengers in 1984, the Utility provided employment for thirty-five persons with an annual payroll of nearly a half-million dollars. Twenty-three (23) of the employees are bus drivers, eight (8) are service related personnel, two (2) are clerical workers, and two (2) are managerial personnel. The majority of the Transit Utility's employees are life-long residents of Terre Haute. The average age for a transit employee is 45 years.

The day-to-day operation of the Utility is funded from four (4) sources: 1) federal funds provided by the Urban Mass Transportation Administration (UMTA) account for thirty-seven and one-half percent (37½%) of the annual operating budget; 2) farebox and charter revevenue together account for twenty-five percent (25%) of the annual operating budget; 3) State of Indiana Public Mass Transportation Funds (PMTF) account for twenty-five percent (25%) of the annual operating budget and 4) funding from the City of Terre Haute account for tweleve and one-half percent (12½) of the annual operating budget. The levels of funding from three (3) of the four (4) funding sources is directly dependent upon the level of funding from the federal UMTA source. State of Indiana PMTF revenue is provided on a two-thirds (2/3) matching basis to the federal funds. Should the federal UMTA operating funds be decreased, State PMTF will be proportionally decreased. The result would be a reduced operating budget as the City of Terre Haute is in no financial condition to make up any losses in the federal and state operating funds. The end result would be a reduced level of transit service which would bring in less farebox revenue. Any reductions in federal UMTA operating funds to the Terre Haute Transit Utility would translate into transit service reductions in the Terre Haute area.

Regarding the subject of federal UMTA funding reductions as proposed by President Reagan, the City of Terre Haute is primarily concerned that reductions in operating assistance will adversely affect the citizens of Terre Haute. We are not as concerned about reductions in capital assistance because Terre Haute has recently completed several capital purchases for the Transit Utility. If Terre Haute does not have the funds to operate the transit system, capital assistance to purchase additional buses will be of no practical use to the City. Should congress eliminate the federal UMTA operating assistance as proposed by the President, Terre Haute's transit system will cease to function. This will result in the loss of thirty-five jobs and a one-half million dollar payroll within the community. But more important, this will place additional hardships on the citizens of Terre Haute that utilize the bus system. The transit dependent elderly population will have no other reasonable alternative to satisfy their transportation requirements. Other citizens would be forced to use their own means of transportation increasing their costs, increasing fuel consumption and traffic congestion in the downtown area of Terre Haute.

I and the citizens of Terre Haute understand that there is currently a growing deficit at the federal level and that if this deficit is not reduced that there will be long-term adverse economics effects. You, the members of the Senate Budget Committee, will find that the citizens of Terre Haute are willing to do their share to help reduce the deficit. However, I and the citizens of Terre Haute do not feel that we should bear the brunt of the burden in spending reductions. It would be hard for us to understand the loss of jobs for transit workers and being forced to walk to other places of employment while federal spending for the purchase of eight hundred dollar hammers, six hundred dollar toilet seats and blanket funding in foreign aid and counter-insurgents in Nicaragua increases.

I would like to take this opportunity to thank Senator Quayle and the members of the Senate Budget Committee for providing this forum in Terre Haute for the citizens to express their concerns over President Reagan's proposed federal budget.

M. Jay Mitchell

M. Jay Mitchell

STATEMENT OF DR. GERALD E. WARREN

INFLATION is the Number 1 Problem of the United States economy. It was yesterday, it is today and it will be tomorrow. Deficits are both a cause and a result of inflation. Past deficits push interest payments forward and are burdens on current productivity. Present and future deficits create demands and claims upon available savings and necessary capital accumulations. Uncertainty as to future supplies of capital funds and fear of reoccurring inflation bids up interest rates.

Reduction of inflationary pressures in recent months has contributed to a strong dollar and subsequent flow of international capital funds to the United States market. This strong dollar has invited goods and service flow into the domestic economy as a contribution to growth and stability of consumer price levels. At the same time certain exports of domestic productions are curtailed in countries with weak currencies.

Deficits, at any level of government, are produced by an excess of spending over income produced by taxes and fees. Such deficits usually are covered by borrowings and committments for future payments and result in pressure upon interest rates and price levels.

A stable and growing economy is the only sure base for increasing the flow of necessary revenues for any business or economic venture. In the absence of this stimulation, resort must be taken in the reduction of expenditures. Any temporary steps of borrowing only delays the necessary adjustment and adds to the overall cost with interest charges accumulating.

Recent efforts to reduce the scope and burden of public intrusion on the private economy will prove themselves with increasing productivity and income gains for bearing all responsibilities of cost of living standards and capital growth. A resulting consequence of this effort will be to recognize the market discipline of open and international competition without controls and subsidies.

To the immediate concern of inter-relationship of deficits and the levels of government reflected in Federal-State-Local units, I suggest that to underwirte the announced policy of New Federalism means must accompany delegation of responsibility. In order to restore governmental response to its level of greatest efficiency and responsibility power to tax and spend must be related to measures of equity, ability and public necessities. Modern structures and interactions of governmental units clearly indicate that while equity and fairness may require universal tax measure such as income, excises and business levys call for the broadest possible base, expenditure patterns are considerably smaller and closer to the desired service. Specifically revenue sharing is a case in point of bringing resources to the level of greatest effectiveness.

Finally, all of the above oncludes with reiteration that without control over infaltion and by resisting the temptation to borrow our way out and insisting upon fiscal restraint that will relate expendiures to income within an overall economy that has both the means and encouragement to grow and prosper.

Dr. Gerald E. Warren
Professor of Economics
& Management (Emeritus)
DePauw University
Mayor - City of Greencastle

ECONOMIC IMPACT OF THE FY 1986 BUDGET PROPOSALS ON THE STATE OF INDIANA

TUESDAY, FEBRUARY 12, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Evansville, IN.

The committee met at 1:20 p.m., at the Federal Building, Evansville, IN, Hon. Dan Quayle presiding.

Present: Senator Quayle.

Staff present: John Palffy, chief economist; and Greg Zoeller, legislative assistant.

OPENING STATEMENT OF SENATOR QUAYLE

Senator QUAYLE. I call this hearing to order. Let me go through the procedure that we are going to follow. The first witness will be Mayor Vandeveer. The second panel will be Jim Dittoe, Dr. Ray Arensman, Mr. Robert Matthews, and Mr. Donald Gent. The next panel will be Mr. Jack Wade, Mr. William Kessler, and Mr. William Laudeman. And the final panel will be Mr. Tom Ulrich, Ms. Rhonda Borders, Veronica Reis, Clark Field, Darryl McKnight, and Reverend Breimeier.

Our first witness, is the Honorable Michael Vandeveer, the mayor of the great city of Evansville. If you would please come forth. We are delighted to be in your fair city here today, with the unfair weather.

Mayor VANDEVEER. I want to welcome you to the Sun Belt city of the Hoosier State.

Senator QUAYLE. Well, actually, Evansville is known as that and we appreciate your hospitality. I guess we are talking about freezes this day, and the weather outside is rather appropriate for the budget discussions that we are about to commence.

Mayor VANDEVEER. Or sloshing around, or whatever.

Senator QUAYLE. This is our second day of hearings. We started in Indianapolis yesterday. I was in Terre Haute this morning and will be in New Albany and Richmond tomorrow, and Fort Wayne, South Bend, Lafayette, and Hammond yet this week. Our purpose is to get input from those that are in the positions of responsibility in the State—private citizens, public officials such as yourself—to get a feel for the proposed fiscal year 1986 budget and its impact on the State of Indiana. Thus far, we have heard a lot of discussion, but I think that the bottom line is that we are going to have less Federal spending.

49-960 O—85——8

I think that there are two roads that we could travel—one is to reduce spending and the other is to raise taxes. And I believe that the Congress, in a bipartisan way, is prepared to march on the spending reductions. So, as we proceed with these hearings and are trying to figure out which programs to reduce we are faced with "Reduce the other guy's program or tax the guy behind the tree." Finally, we are here to discuss the impact of these budget cuts on your programs, and any other concerns that you want to voice. So go ahead at your leisure and proceed.

STATEMENT OF HON. MICHAEL D. VANDEVEER, MAYOR, EVANSVILLE, IN

Mayor **Vandeveer**. Thank you very much, Senator. We do appreciate the opportunity to be here and to offer some thoughts on what is being proposed. We did send some copies of the testimony, and I will try to summarize and not read through that in its entirety, but I would like to make a few points that we feel are important, here, in the city of Evansville, that I think really relate to the heart of the matter, which is now the proposed cuts in many of the programs that have benefited cities for a number of years.

I think while every city in the Nation will be affected by the kinds of reductions being proposed, the cities in the State of Indiana will face certain devastation, because we lack the ability to replace lost revenue as a result of the property tax freeze.

SURPLUSES IN STATE AND LOCAL GOVERNMENTS CHALLENGED

The Treasury Department's projections of large surpluses in State and local governments is, in my estimation, sadly laughable because I think some of the same sources that have said that cities and States do have surpluses are the same ones that said that we would have a balanced budget in 1984.

The National Association of Governors, I have just noted, has challenged the claim that most States will have a surplus, and certainly, at the local level, where we have ended our year in 1984, with a much better financial statement than we did back in 1980 and 1981, our ability to do much more in the way of providing services really does not exist. We are constrained financially, and we have very few options. We cannot, for example, resort to deficit spending, as in the case of the Federal Government, so we must live with our income and we have done that. That does not mean, though, that we have not made the tough choices to reduce manpower levels by approximately 10 percent since 1981, or place a moratorium on needed public works projects such as street repairs and new projects.

And we have had to defer the purchase of capital equipment items until we could afford to do so. And so the point I am making here is that we have been good financial managers in these difficult times, because we have had to be. The people of Evansville, and I am sure the people everywhere, understand the need for us to deal with this ticking timebomb, known as the Federal deficit, and I think we further understand that we, as a community, should not ask to be totally exempt from doing our part to help reduce that deficit.

IMPACT OF PROPOSED CUTS IN EVANSVILLE

But I would hope that we could have some fairness about the process, and not exempt any sector, including the military budget, or any other areas which may be considered sacrosanct. This indeed is a tough time for all of us, and some very tough decisions will have to be made in the coming weeks and months. We are used to making those tough decisions locally, and we are prepared to keep making them, so long as all the options are carefully examined. Again, we would hope that there would be no "sacred cows," and if we have to graze barren fields for a while, we would hope to do so with all the cows in the pasture. Now let me be specific, Senator, on what we estimate to be the impact of some of the proposed cuts in the city of Evansville.

REVENUE SHARING

Our city receives $1.3 million in Federal revenue-sharing funds. If this program is cut, we will not be able to pay one-fourth of our present police department, which we have already had to cut manpower from in the last several years.

Our Federal revenue-sharing money is deposited in our general fund, and is used to pay police salaries, and if we do not want to do that, if we do not want to reduce the numbers any further, we would have to cut back 58 jobs in the city of Evansville budget someplace else.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Our community development block grant funds currently total $3 million a year, and these funds are spread across a range of activities that have helped our community rebuild our aging housing stock, provide for neighborhood revitalization and stabilization, historic preservation activities, economic development programs, park improvements, road and control, and even to help build new fire houses.

INDUSTRIAL REVENUE BONDS

Industrial revenue bonds, which are also a target of some of the proposed cuts, saw last year 17 local firms develop and expand, creating some 262 new jobs, and substantial tax base accumulation. And the total amount of IRB's issued in the city of Evansville last year totaled some $34 million. Elimination of industrial revenue bonds would be detrimental to retail trade, industrial and urban expansion.

URBAN DEVELOPMENT ACTION GRANTS

Our Urban Development Action Grant Program has been very lively in the city of Evansville, enabling us to literally embark on an exciting program of developing a master plan for downtown Evansville, and then seeing that plan implemented through UDAG grants. The Citizens National Bank Building, the new Credit Thrift world headquarters under construction, Riverside I Building, which is under construction now, that will house Peabody Coal Co.—all have been provided assistance through the city of Evansville which received the urban development action grants.

And these funds leverage anywhere from $7 in private investment to $1 public, and across the country I think that ratio may even be higher. And the bottom line here is that these create jobs, and when we create jobs, we reduce unemployment, and it has been estimated, that if we would reduce unemployment in our country from 7.4 percent, for example, down 2 percentage points to 5.4, that we could probably replace some $38 billion as far as the deficit is concerned. So these are jobs programs that ultimately help build a strong economy. Entitlement funds, such as title II, III, and XX, are used by several local agencies to provide needed services to people who desperately need them, such as assistance to older citizens ranging from transportation to handyman services, and these programs touch about 5,000 lives of older citizens who live here. And there really is not a United Way big enough to help fill the gaps, should programs like these be wiped away.

HOUSING MODERNIZATION FUNDS

Proposed cuts in housing modernization funds would surely result in the boarding up of older housing, in which no one, especially those 200 people now on the waiting list for public housing in Evansville would be able to live.

COMMUNITY ACTION GRANTS

Loss of moneys from community action grants, utility assistance funding, historic preservation tax credits, urban park and restoration funds, EPA funding, mass transit operating assistance, and Federal highway match funding, spell certain drastic changes in the quality of life, that we have been able to offer as active partners with the Federal Government through these programs throughout the years.

MUCH OF DEFICIT PROBLEM NOT RESULT OF PROFLIGATE SPENDING

But somehow, I really think you have probably heard much of this before in various cities that you visited, and what kind of impacts these proposed budget cuts would have on them. I will not continue to offer example after example, but we stand ready, of course, to provide any more specific information that you would require down the road a bit. I have already provided, again, a detailed report, and we would be able to of course add to that, if you wish. I would like to leave you with this thought, if I may, and that is that it has been pointed out that much of the deficit problem we face today, about $135 billion worth, did not really come about as a result of profligate spending but specifically as a result of the 1981 tax cuts, and increases in military spending.

And if the current thinking is that we should reduce that revenue by cutting programs, which have benefited our communities, and this city in particular, and most specifically, the people that live here, and in the cities and urban America, then I would hope that we would see fair treatment, as Congress decides what kinds of cuts need to be made, and where.

And if nothing else, I would prefer to see us uphold the programs and incentives which have helped us immeasurably at current levels, and if cuts must be made, then I for one would prefer to see those programs, if they have to be eliminated, phased out and not just cut out entirely.

TAX SIMPLIFICATION

Finally, proposals for tax simplification which may go hand in hand at some point in this whole discussion, while intriguing in concept, if nothing else, should be carefully examined to insure that deductions for interest paid on municipal bonds and charitable contributions are not lost to our community. I appreciate, again, this time to express these concerns, and to address specifically any questions that you might have regarding what I have said, or anything that perhaps I have not said.

I am, again, willing to do my part, and I am sure our community is, but we would hope that as the final decisions are made, that we can see these decisions made fairly and hopefully not to the detriment of that partnership that the Federal Government has had with the cities and towns of this country, and this State. Thank you.

Senator **Quayle**. Thank you very much, mayor.

[The prepared statement of Mayor Vandeveer follows:]

CITY OF EVANSVILLE
CIVIC CENTER · P.O. BOX 3938
EVANSVILLE, INDIANA 47737
(812) 426-5000

OFFICE OF THE MAYOR
MICHAEL D. VANDEVEER

February 7, 1985

Honorable Dan Quayle
United States Senator, Indiana
Senate Hart Building, Room 524
Washington, D. C. 20510

Dear Senator:

Thank you for allowing me the opportunity to come before you today with the City of Evansville's concerns about the proposed Federal spending changes.

While every city in the Nation will be effected by the kinds of reductions being proposed, Indiana cities will be devastated due to the lack of tax-raising power, imposed by the property tax freeze.

The Treasury Department's projections of "large surpluses" for states and local governments is sadly laughable when placed next to the struggling realities of day-to-day city operations, especially considering restraints on the cities in this State. Unfortunately, the reason we are here today is that deficit-spending has become commonplace at the Federal level. This has not been an option for cities in tough times. The City of Evansville survived a period of overspending only by making decisions laced with layoffs and basic program cutbacks. We understand where Evansville would have been were these decisions not followed through with action; and we realize the necessity of action to reduce the Federal deficit, including participation on the part of cities.

Speaking collectively, the cities' problem is with the approach being taken to these reductions, and not in any way, that we have been asked to help tackle this massive dilemma. An oversimplification of the Federal budget is: one-third social security costs, one-third national defense costs, and one-third other domestic programs. With the President's priorities on social security and defense, it's obvious that the screws are going to have to be tightened on the third piece of the pie, namely the Federal programs benefiting cities.

Can the Nation really afford this approach? While our policies must support national security, the foundation for that security starts with peace at home. Domestic program cuts that create turmoil within our cities are not the foundation on which we can build a strong national security.

In order to achieve the stable economic growth necessary to shave the deficit, we need to at least uphold at current levels, the tools that have proven the Federal-Urban partnership successful. These financial instruments have created economic development and jobs that produce tax revenues in return. To dismantle this partnership and weaken these tools would break down an effective system and serve to undermine our cities' abilities to contribute toward the Nation's economic stability.

Evansville receives $1.3 million in Federal revenue sharing funds which are directly tied to the City's General Fund and customarily referred to in relation to police salaries. To lose this funding would cut our police force by one-fourth; and since this is obviously unacceptable, we would have to look to other general operations to reduce some 58 jobs, practically as disasterous in terms of providing vital community services.

Our City currently receives $3 million in Community Development Block Grants which we spread over neighborhood revitalization and stabilization, economic development, historic preservation, and a dozen social service programs. These grants cover 75 jobs directly and have created countless others through neighborhood revitalization and economic development. Programs addressed by Evansville include park facility improvements, firehouse modernization, rodent control, public housing improvements, and transportation subsidies for the elderly and handicapped, to name a few. The ramifications of even a minor reduction in this funding will drastically affect many in our community.

Industrial revenue bonds assisted 17 local firms in development and expansion in 1984 alone, creating 262 new jobs and substantial tax base accumulation. Elimination of industrial revenue bonds would be detrimental to retail trade, industrial, and urban expansion.

Title II, Title III, and Title XX monies are used by several local social service agencies. For example, assistance to the aged, in many forms, from transportation to handyman, touch at least 5,000 lives, through employment of some 72 persons and the Private Industry Council places 800 low-income and dislocated workers annually, along with another 800 youths in summer jobs, while employing 80 people directly.

Proposed cuts in public housing modernization funding would result in the vacation and boarding of buildings where money is needed for code violations, smoke detectors, and gas and sewer lines, among other necessities. Loss of new construction certificates would mean no subsidized housing, when there is now a waiting list of over 200 persons for 2-

bedroom units and a local need of 100 new units a year.

Further, loss of monies from and the use of Community Action grants, utility assistance funding, historic preservation tax credits, UPARR grants, EPA funding, Mass Transit, or Federal Highway "match" funding will have equally as nightmarish results on Evansville and all Indiana cities, as the detailed examples sited.

While these proposed spending cuts are of major concern, so are the proposals to limit cities' capabilities to produce revenues on their own. Possibilities of abolition of tax-free bonds and elimination of federal deductibility of state and local taxes threaten our future revenue outlook. These moves would cause municipal bonds and local taxes to be viewed even more unfavorable than they naturally are among local constituents. And, I can't overemphasize how crippling these revenue changes and/or the urban aid reductions would be to cities in this State, due to the property tax ceiling, and our lack of ability to compensate, even partially, funding losses.

To summarize, President Reagan said in his State of the Union address that the "best way to reduce deficits, is to produce economic growth". Cities have been able to work toward that end with the current level of federal aid and independently imposed revenue-producing capabilities. We ask for your help to uphold these levels. Please do not allow any further erosion of the recognition granted us in the direct administration of urban development programs. Please do not continue recent policies that turn these decisions over to state governments. And, do not believe for a minute that surpluses in a few of the Nation's States translate to excess operating balances in Indiana's cities. I promise you no surpluses exist in Evansville.

I look forward to joining with you and all other cities across the Nation to assist in the continuing fiscal recovery; and I ask you to make decisions that will enable cities to further the Federal-Urban partnership that has aided in the Nation's economic growth thusfar.

Respectfully submitted,

Michael D. Vandeveer, Mayor
City of Evansville

DEAL WITH DEFICIT IN A FAIR WAY

Senator **Quayle**. I can assure you that the partnership is going to continue. The problem that we are wrestling with, and one that you addressed specifically, is how are we going to deal with this budget deficit? Everybody knows that it is there, and I think that you would agree, if we are going to deal with this deficit we ought to do so in a fair way. And therefore, there is a basic agreement that we have got to reduce the deficit, and we are going to reduce it by spending restraint and spending cuts, rather than going in through the tax increases.

You mentioned that the current deficit exists because of the 1981 tax cut, and the increase in defense spending. I think that that is certainly part of it, but if you look at the tax cuts in particular, in fact we are receiving more revenues than we had in 1981, and we have had four tax increases since then. We have had the highway tax, a Social Security tax, and we had TEFRA I and TEFRA II in 1982 and 1984, which puts us back to about the 1981 level of taxation.

Military spending has increased. There is no doubt about it that the national security has increased, through strong bipartisan support. I think that national defense, is our No. 1 priority, but defense spending is also going to take its licks. We simply cannot have—as you said, any "sacred cows" as we go through the budget process.

So, defense spending and all other programs are on the table. You talk about the possibility of not making any radical budget changes. In other words, reduce the deficit by phasing it out.

I wonder, what is the No. 1 program that is most important to you as a mayor? Is it revenue sharing?

MOST IMMEDIATE NEED IS TO FIND $1.3 MILLION

Mayor **Vandeveer**. Well, I would say the most immediate need we have, if all of these proposed changes were to become law, is to find $1.3 million in our general fund. I think that is really the crux of it, returning our Federal tax dollars back to the community in the form of police services, and operating funds.

As I indicated, in recent years, we have faced all kinds of financial difficulties, but we have come to a point where we have made the cuts, and are now at a point where we simply could not replace those funds. I know of no source that would enable us to go back into the budget, and reduce it by $1.3 million, to make those cuts in order to provide those services. A second priority, I believe would be the Community Development Block Grant Program. This has really done a lot for our neighborhoods and for the people that live in them. It has helped bring about a better quality of life in our community, and I daresay communities around the country.

These are the programs that most immediately come to mind, but there are a lot of indirect difficulties and effects that we have with some of what is being proposed. In referring to mass transit, the city of Evansville would be able to get along for a short time without the Federal grants that we receive. But it would not be very long, however, before we would either have to discontinue bus service, or start charging passengers an inordinately high fare which they could not afford to pay.

The list goes on, but I would say our most immediate problem is general revenue sharing. If it was reduced, or eliminated in September of this year, then I think we would face a great difficulty in meeting our own needs in the coming year.

PROVIDING POLICE PROTECTION A FEDERAL RESPONSIBILITY OR NOT

Senator **Quayle**. Let me just play devil's advocate for a moment on a couple of questions that come to mind time and time again. You take the general revenue funding, that helps provide for the police department, and the essential services that the police department performs. Some would argue, that operating the police department, or the fire department, is really not a responsibility of the Federal Government, and therefore Federal moneys should not be used for these vital services.

How do you answer someone that raises this question with you? Is providing local police and fire protection a Federal responsibility or not, and, if it is, it is somewhat of a new responsibility? If not, how does this fit into the political system that we have today?

CITIES USE REVENUE-SHARING DOLLARS FOR OPERATING EXPENSES

Mayor **Vandeveer**. It seems to me that Federal revenue sharing was created to help urban America meet its own needs at a time when local revenues were shrinking. Throughout the years, cities have used their revenue-sharing money for various purposes; for example, some to buy equipment. Most often though, today, cities have used the revenue-sharing dollars for operating expenses.

We happen to line item that in our police salary account. What that does is provide $1.3 million to the general fund, and therefore, if we did not have it, that does not necessarily mean that we would have to reduce our police department by one-fourth. We simply would have to eliminate some other service in the city, through the elimination of approximately 50 jobs. The whole philosophy is whether the Federal Government should be sending money that taxpayers pay to Washington back to the communities. I suppose it could be offset by giving us an opportunity, at the local level, to generate that same money with an offset in the Federal tax by that amount.

But the program has worked relatively well. It has been a low-cost kind of bureaucracy and I do not think there are many people involved in it.

Our problem here in Evansville is that we do not have the ability to raise revenues to provide those services, without looking to some other sources.

If revenue sharing is eliminated, and we could see a reduction in the Federal tax structure, it really would not have a great impact at the local level because it is a shared responsibility. Nationwide, the taxpayers of this country make it possible for cities to meet the certain criteria to be eligible for those funds.

In a way, it is similar to the way highway funding was years ago, when we extended our interstate system and we built Federal highways throughout the country, basically financed by a very healthy urban American in the Northeast. Today, as those cities need help, particularly cities in the Midwest, these kinds of general tax funds are not available to them, and there is not much recourse. There are not many options for them to exercise.

REVENUE-SHARING MONEY GOES TO THE CITY'S GENERAL FUND

Senator **QUAYLE.** So in essence what you are saying is, that even though this is a line item in the budget targeted to the police department, that if, in fact, this money were eliminated in all probability, cities would cut services elsewhere. Therefore, it is not really going specifically for the police or fire department.

As a matter of fact, in the Indianapolis Star this morning, the lead editorial was saying these services are not a function of the Federal Government. But you are answering that you do not perceive it as being a function, that you perceive it——

Mayor **VANDEVEER.** No, we could just as well redirect it to some other line item in the budget, but basically, it goes to the city's general fund to provide for the operation of the city. Over these past 10 years that we have had general revenue sharing, cities have used that money for operating purposes. If the time has come for that to end, we need to be able to have some alternative.

We have talked to the State about that, but their surpluses are limited. If general revenue sharing is cut, then we will depend on the State of Indiana to help us.

These programs, if stopped, would cause some serious problems, and I think we have to look very carefully at the true effect of these programs. Have they effected the quality of life, and communities not just here in Indiana, but nationwide over the years, and it is really beneficial to end programs like this, or to look in some other areas? And that is the challenge that I know that the Congress has today.

INDIANA DOES NOT GET ITS FAIR SHARE BACK

Senator **QUAYLE.** Let me just ask one other question that comes up time and time again. The State of Indiana does so poorly in its relationship of getting the Federal dollar back that is sent to Washington—for example, we get 83 cents back for every dollar that we send to Washington. We are currently 46th I think in the country. We were 49th. We have come up three State's worth in the last 4 years. Some would make the argument and say, "Well, you know, from our point of view, you look at all these programs, and basically, we do not get our fair share back." So therefore, Indiana would really be better off if we did not have a lot of these programs on a comparative basis to some of the other States, because we do not get our fair share back anyway. In effect, we are subsidizing other States and other cities, and we can do a much better job of taking care of our own, and our own people here at home, rather than sending it to Washington, and having it come back. Even though the revenue-sharing program is, as you pointed out, one of the least bureaucratic programs that we have out there.

But from a philosophical argument, they say, "Well, since we are so far down, and we do not make a big effort to get a lot of Federal funds, that Indiana would be a net winner if in fact we did not have a lot of these programs in the first place."

Mayor **VANDEVEER**. Well, I suppose one way to address that would be to say that just as we have done over the last several years at the local level, we have made as many reductions as we think we can, without really seriously injuring our ability to provide services.

If Indiana is low on the totem pole as a recipient of total Federal dollars, then it would seem to me that any further elimination would just make it more difficult for us. Therefore I think the fairness aspect to it, if there are imbalances, and if we are going to try to get a good handle on some of these programs, that perhaps the effort should be to look at areas that get substantially more than they should, and try to reach a point where we are all fairly getting a distribution.

But I know so many of these programs are based on critiera, eligibility factors that contribute, in some way or another, to a State like Indiana, being 46 and Ohio being 16th, or whatever it might be.

Senator **QUAYLE**. One last question, and maybe you do not want to answer this. Is there any one program that the city of Evansville is currently receiving from the Federal Government that you can do without?

Mayor **VANDEVEER**. Is there any one program?

HARD TO IDENTIFY ONE PROGRAM THAT COULD BE ELIMINATED

Senator **QUAYLE**. Just one program. I am looking for an option of offering off one program that you might be willing to put forward on the auction block as we look at reductions or phaseouts across the board. I was just wondering if you had one possible candidate in mind.

Mayor **VANDEVEER**. I do not know. Can you think of one? This is Lesley Blenner, our city controller, Senator, and——

Senator **QUAYLE**. Lesley, do you have a shopping list over there that you would want to share with us?

Mayor **VANDEVEER**. You see the size of this!

Senator **QUAYLE**. Those are the ones you want to save!

Mayor **VANDEVEER**. At the risk of identifying any program that we would somehow indicate that it is not as important as another one, there are some relatively low cost programs that we might be able to deal with if we had to. One that comes to mind is an EPA grant that I think we could probably cover, but they are low cost. I think it is mostly a function of dollars, more than it is importance of the program.

We regard protecting our environment as a very important function that we have, and we would like to keep that control locally and not turn it over to the State or entirely to the Federal Government.

But I think, really, it just amounts to what the total amount is that we receive, and the benefits that we derive from it. I do not know of any other unless Lesley would like to——

Senator **QUAYLE**. Keep that all secret in that big briefcase there, of what these programs that you can do without are!

Mayor **Vandeveer**. These are all justifications for——

FEDERAL GOVERNMENT GOING TO CONTRIBUTE LESS

Senator **Quayle**. Justifications for it. That is what I was afraid of. Mayor, thank you very much, and I can just assure you, that as we go along, that your testimony will be very valuable to us. And also, I do not think that you are going to have any abrupt changes, but I think for planning purposes, as we look to this partnership that we have had over the years, the Federal Government is going to be making less of a contribution than it has in the past, and I think that is just reality. It is just a different environment than it was a decade ago.

I would like to have had a hearing 20 years ago, and have you come forward. Leslie would really have unleashed that briefcase on all the moneys that we have, on new ideas, and new projects that you would like to start here in the city of Evansville. I know with your energetic viewpoint, that you would have a whole host of them. But unfortunately, from our point of view, at least from, the Federal Government's point of view, there are just not a lot of revenues out there to share any more. One thing we have to really get rid of is the big deficit, and that is what the problem is, and that is what we are going to tackle.

But we are going to do it, at least from this point of view, and in as fair a way that we can do it, and to invoke the least economic disruption. So I thank you for your participation and your testimony.

Mayor **Vandeveer**. Thank you very much for allowing us to testify today, and we stand ready, again, to provide any additional information that you would require as you make these difficult decisions. I would just close again by saying we hope that as this process continues, that sensitivities will be directed to the kinds of things that have helped our community attain a better quality of life. Thank you.

Senator **Quayle**. Thank you. Next are Mr. James Dittoe, Mr. Ray Arensman, Mr. Robert Matthews, and Mr. Donald Gent. This is the president of the Metropolitan Evansville Chamber of Commerce, Mr. Jim Dittoe. We have a little light on there, gentlemen, in view of time constraints. So when you begin we will allow 5 minutes, and when that red light comes back on, that means that 5 minutes has expired.

If you could finish your thought in a short period of time thereafter, it would be greatly appreciated.

Mr. Dittoe.

STATEMENT OF JAMES T. DITTOE, PRESIDENT, METROPOLITAN EVANSVILLE CHAMBER OF COMMERCE

Mr. **Dittoe**. Thank you. I will finish my talk in a short period of time. It will not take me long for those thoughts. I apologize for not having my 25 copies. We were in a little bit of a bind this morning. My secretary did not make it in and my typing ability was never fully developed.

I would like to read just some of the summary statements and make a couple of general comments included in those, and then talk a little bit specifically as to what our congressional action committee recommends to the Senate. But first of all, just some general comments.

CHIEF CAUSES OF FEDERAL DEFICIT

The chief causes of the Federal deficit, in our view, are rapid growth in Government spending and below average growth in our economy. Effective solutions to these problems are those that impose firm limits on the growth of Government spending and preserve and encourage the economic recovery now under way. Anything short of this will be largely ineffective. It will be likely, likely make the problem worse. But we share the concern about the future course of the projected deficit. We view these projections as a symptom of a larger and more severe problem. The true measure of crowding out by the Federal Government is the share of our gross national product devoted to the funding of the vast array of Federal spending programs.

In the last fiscal year this crowding out amounted to 24.7 percent of our gross national product, the highest level ever recorded in peacetime, and nearly 20 percent more than the level of intrusion in fiscal year 1979.

Despite this substantial increase in the degree of crowding out, the debate on the budget has persistently focused on the symptom of this problem, the gap between outlays and receipts. Expressed as such, the debate has degenerated in to endless quibbling as to the proper mix of borrowing and taxation to fund the spending the Congress imposes on the American people.

But whether Congress chooses to fund this spending by taxing or borrowing, someone, somewhere, will be crowded out and the private economy will suffer accordingly.

REAL THREAT OF THE DEFICIT

As we survey the literature on the subject, it is clear that we have more documented evidence on the harmful effects of high taxes than we do have on the effects of deficits. Clearly, deficits are a threat to our economy; however, the real threat of the deficit is derived more from the fearful reaction it induces in our policymakers, and the actions they might take to resolve the problem, than from whatever direct and measurable impact it might have on financial markets and economic activity.

The President, in the State of the Union Address last year, in January—not this most recent but last year—announced his intention to convene a meeting of representatives of Congress, and his administration, to try to reach a proper agreement on a bipartisan deficit reduction plan.

CONGRESS URGED TO CONSIDER GRACE COMMISSION RECOMMENDATIONS

He expressed his belief that an agreement among the participants could lead to deficit reductions of $100 billion over the next 3 years, and noted that the work of the Grace Commission could serve as the basis for these savings.

We concur with this final point and urge Congress to consider as its highest priority, the more than 2,000 recommendations made by the President's private sector survey on cost control. Indeed, if only one-fourth of the Grace Commission's identified savings were achieved, Congress would achieve the President's request for a down payment against the deficit projections that many find so alarming.

While some have questioned the accuracy and assumptions that went into the Commission's savings estimates, it is our belief, based on the many similar studies of the same programs performed by the Congressional Budget Office, and the General Accounting Office, that substantial outlays, savings, can be made in the problem areas identified by the Grace Commission. The chamber encourages Congress to implement as many of the Grace Commission recommendations as possible in this session. Some specific recommendations that are coming from our congressional action committee to our board of directors, that have not permitted our board to take official action because the board meets tomorrow, Senator, are first of all, Social Security.

CONGRESSIONAL ACTION COMMITTEE RECOMMENDATIONS

The committee consensus was, that the spector which really confronts retirees is inflation, and that the best way to ensure that elderly America has incomes and dignity, is to contain inflation. With that was the recognition that the expanding benefits of the Social Security Program, primarily those attributable to the cost-of-living increases, are a major contributor to inflation. Therefore, our committee recommends to the board the following: That there be no increases in Social Security benefits in the coming fiscal year, and that serious attention be given to deferring cost-of-living increases in the future. Concerning defense spending, our committee spent some time discussing the President's, and Secretary of Defense Caspar Weinberger's recommendations that there be increases in the fiscal year 1986 expenditures for national defense.

It was the committee consensus that it is totally unrealistic to expect that social programs, such as the School Lunch Program, Aid To Dependent Children, Medicare, and other welfare programs be cut, without corresponding reductions in the national defense budget. After considerable consideration, the committee recommends the following: That the budget for military spending, for fiscal year 1985–86 be frozen at the fiscal year 1984–85 levels. The consensus of our committee was one of great disbelief that the defense budget could not be contained at current year levels.

I will conclude at this time because the light went off, and as I said, my attention span is short. We will conclude with the final recommendations as they go to our board, and submit them to you with a complete copy of this testimony, and the other supporting documents. Thank you.

Senator **Quayle**. Thank you very much.

Dr. Arensman.

STATEMENT OF DR. RAY W. ARENSMAN, McCURDY PROFESSOR OF ECONOMICS, UNIVERSITY OF EVANSVILLE

Dr. **Arensman**. I am Dr. Ray Arensman, the McCurdy Professor of Economics at the University of Evansville. I have been teaching economics for 35 years, and up until recently, like most of my academic colleagues in economics, I have been telling my students that deficits in the Federal budget are really desirable if the economy is operating at less than full employment. And I have also been telling my students for 35 years, that the accumulation of those deficits which we call the national debt, are practically harmless so long as the American economy is moving steadily along a growth track.

Now I am ready to reconsider, and to recant, and to recognize the serious consequences of these unprecedented growing deficits in a sputtering economy. I am now warning my students of the dire implications which these huge and cumulative deficits will have, not only upon the national economy but on their standards of living.

TREASURY FUNDINGS OF DEFICIT CAUSE CROWDING OUT

My corrected lecture notes now emphasize that continued massive Federal budget deficits will continue to force the Treasury to sell ever-larger issues of government obligations in our limited money markets.

Now, as the Treasury absorbs more of these funds, fewer dollars are available for borrowing by business firms and by individuals, and thus the Treasury fundings of the deficit cause a serious problem which economists call "crowding out" and which Mr. Dittoe just referred to.

Now the inevitable result is persistently high interest rates which will dampen the capital formation, and the research and the development, and the business expansion, and the job creation which we will so desperately need to keep our economy constantly renewing and growing.

And so in a genuine sense, Senator, using these lendable funds to finance Federal deficits instead of financing our capital needs is tantamount to "eating our seed potatoes" and we are condemned to a lower standard of living in the long run, if we keep doing this.

And the seriousness of this situation is now widely discussed in all the professional journals of economics. These dangers are widely recognized and they are discussed also among my professional colleagues, all of whom have read my manuscript and approve.

Students in my graduate classes have for several years expressed deep concern about the long-run ramifications of these continued, unprecedented deficits.

However, most of my colleagues in academe now wonder if the general public really has enough background, or interest, not only to understand the problem but, would it not be disastrous if corrective economic policies and compromises, which you would laboriously assemble in Congress, were to be ultimately rejected by an ignorant, or a complacent electorate unable to understand the problem.

BUDGET FREEZE

The first answer I think was referred to by Mr. Dittoe. It is a budget freeze. Now a budget freeze, like a wage or a price freeze would always catch somebody at a disadvantage, and it would freeze those inequities but only temporarily.

Most of my colleagues believe the Federal budget should be frozen at the present level for about 2 years. One of my graduate students said a budget freeze would operate much like a yellow light in the Indianapolis automobile race—every car slows down, every car retains its relative standing in the race, nobody continues to try to get ahead of anybody else, and the excessive speed which caused the problem in the first place is reduced until the danger is removed. I rather like that analogy and I recommend it for your consideration.

MILITARY CUTS

A 2-year freeze on every item in the Federal budget, except of course interest on the debt, would provide the incentive for budgetary units to use their limited funds more efficiently, and would also give you time in Congress to reassess national priorities. And concerning cuts, one wag once wrote that an advantage of universal military conscription is that almost every ex-G.I. returns to civilian life with a deep hatred and distrust of the military. Perhaps this wag might also have added that every G.I. comes back to civilian life with a sharp awareness of the myriad economic inefficiences and flagrant waste of the military. Now the people in this country are not so naive as to believe that the state of the national security is directly proportional to how much money you give our military to spend on it.

Also, for right or wrong, there is a dramatically changed perception of communism as a worldwide threat to our security. As an ideology, communism is so fragmented, they seem bent on destroying each other, either by their daily diatribes or by their missiles. And nowhere in the Communist world is there an economic system that is producing anywhere near to the satisfaction of its citizens.

Now in this milieu, I seriously doubt that the American voter will continue to commit ever-larger military appropriations at the ultimate expense of the health of our economy.

Is it not also paradoxical, that the President seems bound to expand a military budget which the Congress and the electorate would nominate as the first expenditure to be curtailed. One of my friends suggested that David Stockman be named Secretary of Defense, and be given a free hand to swing his ax.

ADDITIONAL SPENDING CUTS

There are other additional spending cuts which have been alluded to. I would like to jump to a conclusion in the interest of time, and I will enumerate these.

No. 1, budget deficits, which may have been desirable in recovering from depressions in the past now are an obstacle to economic growth, when they are now so large and continued.

No. 2, the American public will not accept measures to correct these deficit problems unless it is thoroughly convinced and understands the long-run devastating impacts of these deficits. You and I have an educational job to do about the impact of that.

No. 3, a total freeze on all Federal spending for 2 years would be very productive for a variety of reasons.

No. 4, a national referendum would probably isolate the military budget as the most logical source of substantial further reductions in Government spending.

No. 5, additional cuts in nonmilitary items would have to be spread widely over a large number of entitlements, and beneficiaries, to be politically acceptable.

No. 6, in the long run, the Federal Government cannot achieve enough reductions in spending to make the deficit manageable. It must therefore ultimately look to new sources of revenue, not merely revenue-neutral tax reform, however desirable that might be.

No. 7, the American public will resist and avoid any additional new Federal taxes until it is really convinced that budget reductions have forced governmental units to operate more efficiently.

No. 8, the Federal Government should shift from a historical pattern of taxing income and savings toward a pattern of taxing consumption and also spending, and I recommend the value-added tax as a move in the right direction. Some of your colleagues have been investigating that and the results are favorable. I urge that continued to be considered. I like a value-added tax.

We should probably promptly increase the Federal tax on gasoline to promote conservation, develop alternate sources of energy, and to generate substantial revenue for the Federal Government. There is great room for revenue and conservation measures in an additional gasoline tax.

The achievement of many of the social and economic objectives which you and I desire is now contingent upon a sharp reduction in this Federal deficit, and I think the major task of the second Reagan administration, and also, your 99th Congress, will be to forge those political compromises which are necessary to reduce our Federal deficits to manageable proportions. Thank you very much.

Senator QUAYLE. Thank you very much, Doctor.

[The prepared statement of Dr. Arensman follows:]

TESTIMONY BEFORE THE
SENATE BUDGET COMMITTEE
FIELD HEARINGS

By

Dr. Ray W. Arensman
McCurdy Professor of Economics
School of Business Administration
University of Evansville

In Room 337, Federal Building
Evansville, Indiana

On Tuesday, February 12, 1985
1:00 p.m.

Hearings Arranged By
Senator Dan Quayle

BACKGROUND:

I have been teaching economics for 35 years. Up until recently--like most of my academic colleagues in economics--I have been telling my students that deficits in the federal budget are desirable if the economy is operating at less than full-employment. I also told my students for 35 years that the accumulations of deficits we call the National Debt, were practically harmless so long as the American economy moved steadily along a growth track toward sustained full-employment.

Now, I'm ready to reconsider, to recognize the serious consequences of unprecedented growing deficits in a sputtering economy, and to warn my students of the dire implications which these huge and cumulative deficits will have upon their national economy and on their standard of living.

CONVERSION:

My corrected lecture notes now emphasize that continued massive federal budget deficits continue to force the Treasury to sell ever-larger issues of U.S. Government obligations in our limited domestic money-markets. As the Treasury absorbs more funds, fewer dollars are available for borrowing by business firms and by individuals. Thus, the Treasury fundings of the deficit cause a serious problem economists call "Crowding Out". The inevitable result is persistently higher interest rates, which will dampen the capital formation, research, and development, business expansion, and job creation, which we so desperately need to keep our economy renewing and growing. In a genuine sense, using our lendable funds to finance the federal deficit instead of financing the capital needs of our economy is tantamount to "eating our seed potatoes"... and we are condemned to a lower standard of living in the long run.

The seriousness of this situation is now widely discussed in the professional journals of economics. The dangers are widely recognized and discussed among my professional colleagues. Students in my graduate classes have for several years expressed a deep concern about the long-run serious ramifications of these continued unprecedented peace-time deficits.

However, most of my colleagues in academe now wonder if the general public has enough background or interest to understand the problem, which now receives increasing time and space in our media. It would be disastrous if corrective economic policies and compromises, laboriously assembled in Congress, were to be rejected by an ignorant or complacent electorate.

SOME ALTERNATIVE AVENUES TO EXPLORE

TOTAL BUDGET FREEZE:

A budget freeze, like a price or wage freeze, would always catch somebody at a disadvantage; and it freezes these inequities. The efficient are penalized and the inefficient are protected by a budget freeze--but only for the duration of the freeze, which some economists say should be for 2 budget years.

There's much to be said for a budget freeze. It provides an opportunity for careful reappraisal of priorities, reassessment of goals, and redress of waste and abuse.

One of my students said a budget freeze would operate much like the yellow light in an automobile race. Every car slows down, every car retains its relative standing in the race, nobody continues to get ahead of his competitor, and the excessive speed which caused the problem is reduced until the danger is removed. I like this analogy and think it might be appropriate for our budget problem.

A two-year freeze on every item in the federal budget--except of course interest on the debt--would provide the incentive for budgetary units to use their limited funds more efficiently. It would provide time for the Congress to reassess national priorities and to hammer out the necessary compromises for reduced spending and/or increased taxes. Last but not least, a two-year budget freeze would send a clear signal to the private sector and our money markets that our government was indeed going to do something to get a handle on the exploding deficits. The psychological impact of the freeze would in and of itself put a serious dent in inflationary expectations and might quickly bring lower interest rates, which we must have if the economic recovery and long-run economic growth are to continue.

MILITARY CUTS:

Some wag once wrote that an advantage of universal military conscription was that almost every ex-serviceman returned to civilian life with a deep hatred and distrust of the military. Perhaps the wag might have added that every ex-G.I. also has a sharp awareness of the myriad economic inefficiencies and flagrant waste of the military. People are not so naive as to believe that the state of our national security is directly proportional to how much we spend on our military.

Also, for right or wrong, there is a dramatically changed perception of Communism as a world-wide threat to our security. As an ideology, Communisms are so fragmented they seem bent on destroying each other--either by diatribes or by missiles. And nowhere in the Communist world is there an economic system that is producing to the satisfaction of its citizens. In this milieu, I seriously doubt that the American voter will continue to commit ever larger military appropriations at the expense of the health of our economy in the long run. It also is paradoxical that the President seems bound to expand a military budget which the Congress and the electorate would nominate as the first expenditure to be curtailed. One of my friends suggested that David Stockman be named Secretary of Defense and given a free hand to swing his axe!

ADDITIONAL SPENDING CUTS:

In the past four years, the administration has merely reduced the rate at which much federal spending has been increasing. The screams of protests from so many constituencies were heard throughout the land. And yet, paradoxically, the nation voted overwhelmingly in support of this austerity. Is it possible that even those voters victimized by the cuts understood the necessity for austerity in the long run?

In my opinion, many citizens believe there is still considerable room for additional budget cuts in a wide variety of domestic and social programs. My associates often suggest farm supports, tobacco programs, dairy subsidies, government pensions, foreign aid, student loans, and assorted welfare programs as logical areas for additional substantial reductions in federal spending. Many people would like to see a systematic application of the recommendations of the widely-publicized Grace Commission formulated into budget policy. Most of my contacts would also support the proposition that the only way to curtail any government function is to cut its appropriation. To these people, increasing any taxes is anathema until government functions have been streamlined by a long period of austere budgets.

REALISTIC RESTRICTIONS ON SPENDING CUTS:

Only the most naive would contend the deficit will disappear merely by cutting government spending. Many citizens do not realize that by FY 1983 the variety of entitlement programs, plus interest payments on the debt, comprised 75% of Federal outlays. We can't keep refinancing the national debt if we cut interest payments below market rates; that's out. That leaves the huge assortment of various entitlements and the military as the remaining candidates for cutting outlays. And here, many folks believe we should spread the pain over as many entitlements as possible, including the elderly, the farmer, the astronaut, the veteran, the student, the home buyer, and on across the board.

But progress in this direction will be difficult; and the dollars saved will soon not be worth the additional strain, effort, and protest. Which leads us ultimately to the fact that the Federal government must ultimately find new sources of revenue--not merely revenue-neutral tax reform, but new measures to increase Federal revenue. What form shall these new taxes assume?

NEW FORMS FOR FEDERAL TAXES:

Again I want to emphasize that many Americans will resist and avoid any new additional taxes unless and until they are convinced an extended period of austerity has resulted in a more streamlined Federal bureaucracy. But, when that period of austerity has run its course and the private sector of the economy has a sustained period of economic growth, we will again have need for additional revenue. At that point, we will have an opportunity to gradually shift our traditional patterns of taxation.

VALUE-ADDED TAX:

I support a number of respectable economists who believe America should slowly shift from taxing income and savings to a pattern of taxing spending and consumption. Encouraging savings would expand the pool of lendable funds, which would facilitate the sale of Treasury securities and lower interest rates. Capital formation and production would expand and reduce inflationary pressures, thus promoting economic growth without inflation. In this economic climate the national debt would not loom so large as a proportion of either the lendable money pool or the size of the economy. As tax burdens slowly shifted away from saving and toward spending and consumption, we would vastly enlarge the tax base and generate vast amounts of revenue. These results are attainable by shifting to a form of Value-Added Tax, the most common and prolific form of taxation in western Europe. We would need to protect the poor by exempting expenditures for food, housing, and medicine. Every other transaction would be taxed on the difference between what it cost the seller and what he sold it for. The tax could be remitted in whole or part for selected items to be exported, as is done by most European nations using the Value-Added Tax. A number of congressmen have investigated shifting to this desirable form of taxation and I hope the study will continue.

GASOLINE TAXES:

The price of gasoline in the United States is now approximately half of what it is in most other industrial countries. We have therefore slipped back into our former wasteful habits of gasoline consumption and resumed the purchase of larger automobiles. While conservation of petroleum is relaxing, our falling gasoline prices have cancelled or postponed research and development of other energy sources. We would be well advised to impose an additional substantial federal tax on gasoline--to promote conservation, to encourage alternate energy development, and to collect additional revenues. And the time to do this is when inflation is cooled as it is now.

CONCLUSIONS:

1. Budget deficits, which may be desirable in recovering from depressions, become an obstacle to economic growth when they become large and continual.
2. The American public will not accept measures to correct the deficit problems unless it thoroughly understands the long-run devastating impact of these deficits.
3. A total freeze on all Federal expenditures for two years would be very productive for a variety of reasons. Interest on the debt would have to be exempt from the freeze to assure continued refinancing of the debt.
4. A national referendum would probably isolate the military budget as the most logical source of substantial reductions in Federal spending.
5. Additional cuts in non-military budget items would have to be spread widely over a variety of entitlements and beneficiaries to be politically acceptable.
6. In the long-run, the Federal government cannot achieve enough reductions in spending to make the deficit manageable. It must, therefore, ultimately look toward new sources of revenue; not merely revenue-neutral tax reforms, however desirable they may be.
7. The American public will resist and avoid any additional new Federal taxes until it is convinced budget reductions have forced governmental agencies to operate more efficiently.
8. The Federal government should shift from our historical pattern of taxing income and savings toward a pattern of taxing consumption and spending.

9. The Value-Added Tax has many long-run economic advantages for economic growth as well as potential for raising large amounts of revenue.
10. We should promptly increase the Federal tax on gasoline to promote conservation, develop alternate sources of energy, and to generate substantial revenue for the Federal government.
11. The achievement of many social and economic objectives is now contingent upon a sharp reduction of our Federal deficits.
12. The major task of the second Reagan Administration and the 99th Congress will be to forge the political compromises necessary to reduce our Federal deficits to manageable proportions.

Ray W

February 12, 1985

Senator QUAYLE. Next is Mr. Robert Matthews.

STATEMENT OF ROBERT S. MATTHEWS, JR., EXECUTIVE DIRECTOR, CENTER CITY CORP. OF EVANSVILLE, INC.

Mr. MATTHEWS. Thank you. Good afternoon. My name is Rob Matthews, and I am the executive director of the Center City Corp. of Evansville, Inc., which was recently created to spearhead the revitalization efforts in downtown Evansville in a joint effort with the city of Evansville.

Before I go much further, I would like to take this opportunity to say thank you for allowing me to convey some of my thoughts and concerns about the Federal budget and deficit, because it will directly impact the operations of our organization.

CENTER CITY CORP. GIVEN $30,000 GRANT

This past fall, the Evansville City Council, and the mayor of Evansville, felt that it was appropriate to give the Center City Corp. a $30,000 community development block grant. This was to help us get through our first year of operations, and allow us time to develop other nongovernmental funding sources.

We were more than happy to receive this grant for our first year of operation, but we do not look forward to all the governmental paperwork that must go along with it.

After we were notified of this grant, we developed a program of work that utilized these funds, which represents approximately 33 percent of our budget. The remaining 66 percent is from dues and contributions from the private sector. It was not more than 2 months after we received notification of this grant, that we were informed by the Department of Metropolitan Development, that the Community Development Block Grant Program for fiscal year 1985 is one of tne Federal programs targeted for reductions or elimination as a means of controlling the Federal budget, and ultimately, the Federal deficit.

DEFICIT RESTRICTS POSITIVE GROWTH IN WORLD ECONOMY

I am sure that all of us in this room are in agreement that the Federal budget and deficit needs to be reduced immediately. In my opinion, the Federal deficit is the largest single factor restricting the positive growth in our world economy.

This is mainly due to the high interest rates which we are still seeing today. Sure we can say look how low they are compared to what they were a year or two ago, but they are still too high for a healthy economy.

Today, as you well know, the Federal Government is entering the private sector, and borrowing 70 percent plus of all available credit, leaving less than 30 percent available to the private sector for economic development and expansion.

I am no economist but I do realize that when a commodity, and in this case available credit, is scarce and in demand, you pay a premium for the commodity.

This is what has been happening to credit in the past few years, and will continue to do so, as long as the Federal Government cannot control its appetite, and say "no" when they are at the dinner table with the waiter, the citizens of the United States taking their order.

INCREASE TAXES OR REDUCE SPENDING

Senator Quayle, you and your fellow Members of the Senate are elected to serve the people and their best interest. The electorate is saying reduce the budget and deficit. The trillion dollar question is how. As I see it, you are faced with one of two choices: A, increase taxes; or B, reduce spending.

The first choice—that is, increase taxes, is probably the easier of the two, but more than likely, the most unacceptable. I am willing to bet, that if this were the route we were to follow, we would not see any real reduction in the deficit but only spending increases. The solution would be devastating in the long run to our economy. We must start thinking of the consequences beyond the next election. Thus, we have no other alternative but to select Choice B, reduce spending, the more difficult of the two choices, because we will now encounter the "Get the other guy syndrome", which I am sure you encounter every day.

We all realize that the reduction in funding of various Federal programs, or their elimination is fine, as long as you do not cut or eliminate my pet program. If you do, I will no longer give you my vote or contribute to your campaign. But there comes a time when we must "bite the bullet" and say "no", across the board, and that time is now.

As I said earlier in this presentation, the $30,000 Community Development Block Grant Program is of vital importance to us. However, we realize that in the long run, a reduced Federal deficit and budget is healthier, and if that means a reduction, we will accept it. This will mean extra work on my part, and others, to raise the necessary funds to make up this difference, but it will be worth it.

SPENDING REDUCTIONS MUST BE ACROSS THE BOARD

We feel that if you reduce Federal spending, it must not be directed at any select program unless they have outlived their usefulness. Any spending reductions must be across the board to make them equitable.

If you do not require everyone to give up a little bit, you are setting yourself up for criticism and you will miss your goal of reducing the budget deficit.

It is no fun to go on a diet and go without for a period of time, but once you have succeeded, you will feel much better about yourself and be that much healthier.

The future of this Nation is in your hands now. The attitude is right for a change in direction. The timing is right and all we need is for you and your fellow Senators to do, is to make the tough but right decisions. Do what your conscience tells you to do. Again, thank you for giving me this opportunity to speak to you about the Federal budget, and when we are concluded I will be happy to answer any questions.

Senator QUAYLE. Thank you very much. I can tell you, you are right about that "get the other guy syndrome." It is so often the case. I see a lot of smiles at the table here. Mr. Donald Gent.

STATEMENT OF DONALD I. GENT, EXECUTIVE DIRECTOR, WELBORN MEMORIAL BAPTIST HOSPITAL, EVANSVILLE, IN

Mr. GENT. Mr. Chairman, I am Donald I. Gent, executive director of the Welborn Baptist Hospital, and also, I am the immediate past-president of the board of directors of the Indiana Hospital Association. I have submitted 25 copies for your staff's information.

We appreciate your interest in health. I think I told you that personally. We in the Indiana Hospital Association, or environment, want to thank you for speaking on our program at the American Hospital Association meeting in Washington on February 4. I want to say I am prejudiced, but I think you did the best job of any speaker there, you were the best orator, and thank you for giving the hospitals an opportunity to speak on your tour across the State.

I am pleased to have the opportunity to present our views with regard to the Federal budget policy. We in southern Indiana appreciate the enormous responsibility upon Congress to deal with the Federal deficit.

GOVERNMENT SHOULD LIVE WITHIN ITS MEANS

We believe the Federal deficit is one of the highest priorities of the Federal Government in 1985, and probably for many years to come. Yet we support a healthy economy and a strong national defense. We believe the Federal Government should quit spending more than its revenues. We believe the excessive growth in Government spending should be stopped. Most of us in industry and private life have learned to live within our means, and expect the same from our Government.

The people of southern Indiana have nurtured their natural, private and family resources for many years. We do not want our resources deteriorated or destroyed for the lack of a resolution to the Federal deficit.

MEDICARE PROSPECTIVE PRICING

My comments will be directed only to one component of the Federal budget and that is health. As you know, the Medicare hospital payment methodology is in a transition from a cost-based retrospective system to a prospective pricing system.

That process began with cost-per-case limits imposed by the Tax Equity and Fiscal Responsibility Act of 1982, and continued with Medicare prospective pricing via the Social Security Amendments of 1983.

Prospective pricing reorients hospital incentives, allowing institutions to benefit financially from management incentives or efficiencies, increasing fiscal predictability, and the system's architects intend to move toward a long-term financial stability program for the Medicare system. Fairness and equity for hospitals and beneficiaries must be maintained if prospective pricing is to meet the proponents' goals. Additional fine tuning of the complex system will be necessary, if payments are to reflect a fair market price for hospital Medicare services, and design flaws are to be corrected.

As the 4-year transition progresses, important decisions are also pending on treatment of capital costs and medical education expenses under this prospective pricing system. Finally, the all-important issue of DRG price adjustments to include DRG weight changes, and area wage index updates, among others, will demand hospitals' attention.

FREEZE ON MEDICARE HOSPITAL DRG PAYMENTS OPPOSED

The hospital industry is opposed to the President's budget proposal to freeze Medicare hospital DRG payments, because it would single out hospitals for a disproportionate cut, violate the commitment of HHS, and Congress, to provide for a reasonable increase in such payments, inject even more inequity in to the pricing, and raise real serious questions about access to the system, and also issues with regard to quality of care.

In addition, any reduction in funds would mean less care for the poor people of our country.

Welborn Hospital and most Indiana hospitals have functioned very effectively within the incentives and constraints enacted upon us. The recent efforts of Federal and State government, and the private sector to reduce increased expenditures for medical care have been quite successful, and we would expect that to continue. Further, any freeze on Medicare payments to hospitals would be very unfair since hospitals were required to accept most of the sacrifice in the health care system, to implement cost-containment measures in the Medicare Program.

Indiana hospitals are generally supportive of increased cost sharing by beneficiaries in the Medicare Program, if such individuals have the ability to pay.

While it is true that health care costs nationally, and in Indiana have increased significantly since the advent of Medicare, many significant improvements in the health care system have occurred during the same period in the availability of access of health care for the poor, elderly, and others, who often were unable to obtain necessary health care treatment.

In fact in a recent issue of USA Today, the headlines on the top said we're curbing disease and we are living longer in our society today. While there is unquestionably increased demand for hospital and health care services, particularly as population ages go up, those services that we will need to render will need to increase on the part of the Federal Government, and not be decreased.

FINANCIAL CRISIS FACING IOWA'S RURAL HOSPITALS

In order to show you—not in Indiana, because I do not think we have this same problem in Indiana—this is the hospital week that comes across hospital administrators' desks every week, and it is about Iowa. It says,

> Noting the financial crisis facing Iowa's rural hospitals, the Iowa Hospital Association has proposed that the state spend $2.6 million to help bail out the state's ninety-seven rural hospitals. The proposal stems from the shortfall in reimbursement for rural hospitals in the Medicare Prospective Pricing System, according to an IHA spokesman, who estimated the rural hospitals will lose $23 million in 1985 because of the flawed payment system. Although $2.6 million will not cover the shortfall, it will buy some precious time for hospitals until the Area Wage Index is

revised. If the Iowa rural hospital systems continues in crisis, quality of care will suffer, and the presence of hospitals assuring access to emergency and acute care of Iowans will be reduced.

So, we may not have this in the State of Indiana but it is happening across the State, and for us to receive a freeze on our program, that has been started just in the last few years, would not be in our best interest.

Let me say that Welborn Hospital has, I believe, responded well to the system, Indiana hospitals have responded well to the system, but we are concerned, as all other citizens of the State of Indiana, about the deficit, and we feel it needs to be applied straight across the board to all programs. Thank you.

Senator QUAYLE. Thank you very much.

[The prepared statement of Mr. Gent follows:]

STATEMENT OF DONALD I. GENT
BEFORE SENATE BUDGET COMMITTEE
FEDERAL BUDGET POLICY
FEDERAL BUILDING - EVANSVILLE, INDIANA
FEBRUARY 12, 1935

MR. CHAIRMAN, I AM DONALD I. GENT, EXECUTIVE DIRECTOR OF THE WELBORN MEMORIAL BAPTIST HOSPITAL AND RESIDENT OF VANDERBURGH COUNTY. IN ADDITION, I AM THE IMMEDIATE PAST-CHAIRMAN OF THE BOARD OF DIRECTORS OF THE INDIANA HOSPITAL ASSOCIATION (IHA).

I AM PLEASED TO HAVE THE OPPORTUNITY TO PRESENT OUR VIEWS WITH REGARD TO FEDERAL BUDGETARY POLICY. WE IN SOUTHERN INDIANA APPRECIATE THE ENORMOUS RESPONSIBILITY UPON CONGRESS TO DEAL WITH THE FEDERAL DEFICIT. WE BELIEVE THE FEDERAL DEFICIT IS ONE OF THE HIGHEST PRIORITIES OF THE FEDERAL GOVERNMENT IN 1985 AND MANY YEARS TO COME. YET, WE SUPPORT A HEALTHY ECONOMY AND STRONG NATIONAL DEFENSE. WE BELIEVE THE FEDERAL GOVERNMENT SHOULD QUIT SPENDING MORE THAN ITS REVENUES. WE BELIEVE THE EXCESSIVE GROWTH IN GOVERNMENT SPENDING SHOULD BE STOPPED. MOST OF US IN INDUSTRY AND PRIVATE LIFE HAVE LEARNED TO LIVE WITHIN OUR MEANS AND EXPECT THE SAME FROM GOVERNMENT. THE PEOPLE OF SOUTHERN INDIANA HAVE NURTURED THEIR NATURAL, PRIVATE AND FAMILY RESOURCES FOR MANY YEARS. WE DO NOT WANT OUR RESOURCES DETERIORATED OR DESTROYED FOR THE LACK OF A RESOLUTION TO THE FEDERAL DEFICIT.

MY COMMENTS WILL BE DIRECTED TO ONLY ONE COMPONENT OF GOVERNMENT EXPENDITURE - HEALTH CARE

MEDICARE HOSPITAL PAYMENT METHODOLOGY IS IN TRANSITION FROM A COST-BASED, RETROSPECTIVE SYSTEM TO PROSPECTIVE PRICING. THAT PROCESS BEGAN WITH COST-PER-CASE LIMITS IMPOSED BY THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982 AND CONTINUED WITH MEDICARE PROSPECTIVE PRICING VIA THE SOCIAL SECURITY AMENDMENTS OF 1933. PROSPECTIVE PRICING REORIENTS HOSPITAL INCENTIVES, ALLOWING INSTITUTIONS TO BENEFIT FINANCIALLY FROM MANAGEMENT EFFICIENCIES, INCREASING FISCAL PREDICTABILITY, AND--THE SYSTEM'S ARCHITECTS INTEND--MOVING TOWARD LONG-TERM FINANCIAL STABILITY FOR THE MEDICARE PROGRAM.

FAIRNESS AND EQUITY FOR HOSPITALS AND BENEFICIARIES MUST BE MAINTAINED IF PROSPECTIVE PRICING IS TO MEET ITS PROPONENTS' GOALS. ADDITIONAL FINE-TUNING OF THE COMPLEX SYSTEM WILL BE NECESSARY IF PAYMENTS ARE TO REFLECT A FAIR MARKET PRICE FOR HOSPITAL MEDICARE SERVICES AND DESIGN FLAWS ARE TO BE CORRECTED.

AS THE FOUR-YEAR TRANSITION PROGRESSES, IMPORTANT DECISIONS ALSO ARE PENDING ON TREATMENT OF CAPITAL COSTS AND MEDICAL EDUCATION EXPENSES UNDER PROSPECTIVE PRICING. FINALLY, THE ALL-IMPORTANT ISSUE OF DRG PRICE ADJUSTMENTS--TO INCLUDE DRG WEIGHT CHANGES AND AREA WAGE INDEX UPDATES, AMONG OTHERS--WILL DEMAND HOSPITALS' ATTENTION.

THE HOSPITAL INDUSTRY IS OPPOSED TO THE PRESIDENT'S BUDGET PROPOSAL TO FREEZE MEDICARE HOSPITAL DRG PAYMENTS, BECAUSE IT WOULD SINGLE OUT HOSPITALS FOR A DISPROPORTIONATE CUT, VIOLATE THE COMMITMENT OF HHS AND CONGRESS (MADE WHEN MEDICARE PROSPECTIVE PRICING WAS CONSIDERED AND ENACTED) TO PROVIDE FOR A REASONABLE INCREASE IN SUCH PAYMENTS, INJECT EVEN MORE INEQUITY INTO PRICING, AND RAISE ACCESS-TO AND QUALITY OF CARE QUESTIONS. IN ADDITION, ANY REDUCTION IN FUNDS WOULD MEAN LESS TO CARE FOR THE POOR.

WELBORN HOSPITAL AND MOST INDIANA HOSPITALS HAVE FUNCTIONED VERY EFFECTIVELY WITHIN THE INCENTIVES AND CONSTRAINTS ENACTED MOST RECENTLY IN THE MEDICARE PROGRAM BY THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982 AND FURTHER BY THE IMPLEMENTATION OF THE MEDICARE PROSPECTIVE PRICING SYSTEM IN 1933. THESE NEW INCENTIVES AND CONSTRAINTS, IN MANY INSTANCES, HAVE RESULTED IN CONSIDERABLE INNOVATION AND COMPETITION IN THE HOSPITAL FIELD AND HAVE RESULTED IN EXTREMELY LOW RATES OF INCREASE IN HOSPITAL PRICES WHICH HAVE BENEFITED ALL PATIENTS INCLUDING, OF COURSE, MEDICARE BENEFICIARIES.

THE RECENT EFFORTS OF FEDERAL AND STATE GOVERNMENT AND THE PRIVATE SECTOR TO REDUCE INCREASED EXPENDITURES FOR MEDICAL CARE, WHILE QUITE SUCCESSFUL, DEPEND, IN LARGE PART, UPON A CONTINUATION OF CONGRESSIONAL COMMITMENT TO PRINCIPLES IMPLICIT IN THE MEDICARE PROSPECTIVE PAYMENT SYSTEM. FOR EXAMPLE, WHILE THE SYSTEM HAS, IN MANY WAYS, LIMITED HOSPITAL PAYMENT, IT HAS PRODUCED EFFECTIVE

INCENTIVES, BUT THOSE INCENTIVES CAN ONLY BE EFFECTIVE IF THERE ARE REASONABLE INCREASES IN PAYMENTS TO HOSPITALS SINCE HOSPITALS, OF COURSE, HAVE TO CONTINUE TO PAY INCREASING AMOUNTS FOR GOODS, SUPPLIES, AND WAGES AND SALARIES.

FURTHER, ANY FREEZE ON MEDICARE PAYMENTS TO HOSPITALS WOULD BE VERY UNFAIR SINCE HOSPITALS WERE REQUIRED TO ACCEPT MOST OF THE SACRIFICE INCIDENT TO IMPLEMENTING COST-CONTAINMENT MEASURES IN THE MEDICARE PROGRAM. FURTHER, A FREEZE WOULD SERIOUSLY IMPAIR ACCESS TO THE SYSTEM FOR FUTURE MEDICARE BENEFICIARIES SINCE HOSPITALS WOULD BE COMPELLED TO ATTEMPT TO PROVIDE THE SAME LEVEL OF SERVICE TO ADDITIONAL BENEFICIARIES AT OLD PAYMENT LEVELS. IF ON THE OTHER HAND CONGRESS SERIOUSLY CONSIDERS AN EVEN-HANDED REDUCTION THAT AFFECTS ALL PROGRAMS AND AGENCIES EQUALLY, THE INDIANA HOSPITALS BELIEVE THAT OUR HOSPITALS SHOULD AT LEAST BE PROVIDED PAYMENTS AT THE FISCAL YEAR 1985 LEVELS AS WELL AS PAYMENT FOR DIRECT AND INDIRECT MEDICAL EDUCATION COSTS, CAPITAL, AND OTHER PASS-THROUGHS.

THE INDIANA HOSPITALS ARE GENERALLY SUPPORTIVE OF INCREASED COST-SHARING BY BENEFICIARIES IN THE MEDICARE PROGRAM IF SUCH INDIVIDUALS ARE ABLE TO PAY. WE VIEW THIS AS FURTHER INCENTIVES FOR REDUCING HEALTH CARE COSTS AND OVER UTILIZATION, AND THIS PROCESS ALSO INVOLVES DIRECTLY THE CONSUMER IN MAKING MEANINGFUL FINANCIAL CHOICES WITH REGARD TO THE PROVISION OF HEALTH CARE. UNTIL THE CONSUMER OF HEALTH CARE SERVICES IS INTIMATELY INVOLVED, IT MAY BE DIFFICULT TO INITIATE FURTHER REFORMS AND CONSTRAINTS IN THE SYSTEM.

WHILE IT IS TRUE THAT HEALTH CARE COSTS NATIONALLY AND IN INDIANA HAVE INCREASED SIGNIFICANTLY SINCE THE ADVENT OF MEDICARE, MANY SIGNIFICANT IMPROVEMENTS IN THE HEALTH CARE SYSTEM HAVE OCCURRED DURING THE SAME PERIOD IN THE AVAILABILITY AND ACCESS OF HEALTH CARE FOR THE POOR, ELDERLY AND OTHERS WHO OFTEN WERE UNABLE TO OBTAIN NECESSARY HEALTH CARE TREATMENT. IN SOME RESPECTS, HOWEVER, THE HOSPITAL INDUSTRY HAS BEEN A VICTIM OF ITS OWN SUCCESS, IN THAT MEDICAL AND TECHNICAL ADVANCES AND IMPROVED ACCESS HAVE, IN FACT, AIDED LONGEVITY AND PRESENTED SITUATIONS THAT CREATE ECONOMICAL AND ETHICAL PROBLEMS IN TERMS OF SUSTAINING LIFE FAR BEYOND WHAT HAD BEEN POSSIBLE ONLY A FEW SHORT YEARS PREVIOUSLY. THERE, OF COURSE, MUST BE A LEGITIMATE DEBATE AS TO THE AMOUNT OF HEALTH CARE SERVICES THAT CAN BE PROVIDED BY GOVERNMENT OR THROUGH THE PRIVATE SECTOR SINCE THERE NOW IS A CLEAR REALIZATION THAT RESOURCES ARE FINITE. DEVELOPMENT OF APPROPRIATE PUBLIC POLICY FOR HEALTH WITH REGARD TO THE AMOUNT AND EXTENT OF SERVICES TO BE RENDERED MUST, OF COURSE, OCCUR.

WHILE THERE IS UNQUESTIONABLY INCREASED DEMAND FOR HOSPITAL AND HEALTH CARE SERVICES, PARTICULARLY AS THE POPULATION AGES, THOSE SERVICES ARE NOW BEING RENDERED IN AN ENVIRONMENT OF EXTREME COST CONTAINMENT AND RESTRAINT, THEREBY INCREASING DRAMATICALLY THE CHALLENGES TO THE INDIANA HOSPITAL INDUSTRY. THE MEDICARE PROSPECTIVE PAYMENT SYSTEM HAS, IN FACT, PRODUCED REAL INCENTIVES AND REDUCTIONS IN EXPENSES AND MODERATED UTILIZATION TRENDS. EXHIBIT "2" CLEARLY DEMONSTRATES THESE PATTERNS.

AS ENCOURAGING AS THESE DEVELOPMENTS ARE, WE MUST CONTINUE TO BE AWARE THAT THERE STILL IS CONSIDERABLE DEMAND FOR SERVICES THAT HOSPITALS MUST PROVIDE WITH MUCH MORE LIMITED RESOURCES THAN PREVIOUSLY AVAILABLE. CONSEQUENTLY, INDIANA HOSPITALS URGE THAT THE COMMITMENTS MADE BY CONGRESS IN 1983 REGARDING THE MEDICARE PROSPECTIVE PAYMENT SYSTEM BE HONORED SINCE HOSPITALS HAVE PERFORMED EFFECTIVELY AND AS INTENDED UNDER THE PROGRAM. THE CONTINUATION OF SUCH EFFECTIVE PERFORMANCE CAN ONLY OCCUR IF HOSPITALS CONTINUE TO RECEIVE FAIR PRICE INCREASES REFLECTING INCREASED COSTS OF SUPPLIES, WAGES AND SALARIES TO HOSPITALS. THIS PRINCIPLE WAS IMPLICIT IN THE DEVELOPMENT OF THE SYSTEM AND TO SUGGEST THAT A FREEZE IS NOW APPROPRIATE, CERTAINLY IS INCONSISTENT WITH THE PROMISES AND COMMITMENTS MADE UPON ENACTMENT OF THE PROGRAM.

MANY HOSPITALS IN INDIANA AND NATIONALLY HAVE COMPLETED LESS THAN A YEAR UNDER PPS. IN FACT, WELBORN BAPTIST HOSPITAL HAS COMPLETED EIGHT MONTHS. WE NEED A PROVEN PROGRAM ON A LONG-TERM BASIS. PPS IS A VERY COMPLEX SYSTEM. TO JUMP IN AND OUT OF A PROGRAM OF THIS NATURE WOULD NOT BE IN THE BEST INTEREST OF THE HEALTH CARE INDUSTRY. THE GOVERNMENT NEEDS TO KEEP ITS COMMITMENT AND CONTINUE THE PRESENT PROGRAM.

FURTHER, A FREEZE ON MEDICARE PAYMENTS AT FISCAL YEAR 1984 LEVELS UNFAIRLY REQUIRES HOSPITALS TO AGAIN ACCEPT SACRIFICE DISPROPORTIONATE TO WHAT OTHERS HAVE HAD TO BEAR. FOR EXAMPLE, IN 1983-84, HOSPITALS HAVE LARGELY ABSORBED THE CONSTRAINTS IN THE

MEDICARE PROGRAM AND WOULD AGAIN BE REQUIRED TO DO SO UNDER A FREEZE APPROACH. INDIANA HOSPITALS ARE MORE RECEPTIVE TO REDUCTIONS THAT ARE EVENLY APPLIED TO ALL PROGRAMS SINCE THAT DOES REPRESENT A FUNDAMENTAL EQUITY, EVEN IF IT IMPOSES FURTHER HARDSHIP AND SACRIFICE UPON HOSPITALS.

WE WISH TO COMMEND THE CONGRESS FOR ITS COMMITMENT AND VISION IN THE DEVELOPMENT OF MEDICARE PROSPECTIVE PAYMENT, EVEN WHERE THAT SYSTEM DOES PRODUCE SOME INDIVIDUAL INEQUITIES. PRAISE IS NONETHELESS MERITED HOWEVER, SINCE THE PROGRAM HAS INJECTED FOR THE FIRST TIME SINCE 1966 NECESSARY, MEANINGFUL INCENTIVES AND CONSTRAINTS. THESE FORCES, AT WORK IN THE HOSPITAL SYSTEM, ARE CAUSING A RAPID AND SIGNIFICANT RESPONSE WHICH IS REFLECTED IN THE DEVELOPMENT OF NEW CONCEPTS OF PAYMENT, DELIVERY, AND INSURANCE. MANY INSURERS, HOSPITALS, BUSINESSES, AND OTHER GROUPS ARE EXPERIMENTING WITH PROSPECTIVE PRICING SYSTEMS, SPECIAL ALTERNATIVE CONTRACT PROPOSALS, AND NEW BENEFIT DESIGNS FOR CONSUMERS OF HEALTH CARE. THE MEDICARE PROSPECTIVE PAYMENT, IN PART, HAS HELPED SPUR RENEWED INTEREST IN PREPAID DELIVERY SYSTEMS AND IN PREFERRED PROVIDER ORGANIZATIONS, WHILE IT IS DEBATABLE AS TO WHETHER THESE LATTER ENTITIES WILL PROVIDE MEANINGFUL DELIVERY OR COSTS INCENTIVES, THESE PROGRAMS ARE GENERATING CONSIDERABLE DISCUSSION, INTEREST, AND ACTIVITY.

AS CONGRESS CONSIDERS BUDGETARY POLICY IN 1985, INDIANA HOSPITALS SUPPORT THE CONTINUATION OF THE EXISTING PROSPECTIVE PAYMENT PROGRAM, SINCE WE BELIEVE IT HAS BEEN LARGELY SUCCESSFUL AND HAS ACCOMPLISHED THE GOALS AND OBJECTIVES ORIGINALLY ENVISIONED. FURTHER, INDIANA

HOSPITALS SUPPORT AN INCREASED PARTICIPATION BY BENEFICIARIES IN THE MEDICARE PROGRAM IN TERMS OF COST-SHARING WHERE SUCH INDIVIDUALS ARE ABLE TO PAY. AS THE BENEFICIARIES BEGIN TO BE INVOLVED SIGNIFICANTLY IN THE FINANCIAL DECISIONS RELATING TO THEIR CARE AND TREATMENT, NEEDED ADDITIONAL INCENTIVES WILL BE INJECTED INTO THE SYSTEM. WE BELIEVE THAT CONSUMER INVOLVEMENT IN DECISIONS AFFECTING THE TYPE AND COST OF HEALTH CARE RECEIVED IS A MAJOR ADVANCE NECESSARY TO ESTABLISHING FULL COMPETITIVE FORCES IN THE HEALTH CARE FIELD. CONSEQUENTLY, INDIANA HOSPITALS GENERALLY SUPPORT GREATER PARTICIPATION BY MEDICARE BENEFICIARIES IN TERMS OF PAYMENT OF DEDUCTIBLES AND COINSURANCE.

FINALLY, WE ARE CONCERNED THAT FURTHER RADICAL MODIFICATIONS IN THE EXISTING MEDICARE SYSTEM WILL BE EXTREMELY DIFFICULT FOR HOSPITALS TO ABSORB IN 1985, AS THEY CONTINUE TO ADJUST TO MEDICARE PROSPECTIVE PAYMENT. IT IS OUR JUDGMENT THE PPS SYSTEM IS WELL IN PLACE, IS GENERALLY SOUND AND SHOULD BE GIVEN ADDITIONAL TIME TO PROVE ITS VALUE :IN TERMS OF CREATING INCENTIVES AND INJECTING CONSTRAINTS ALL WITH THE AIM OF MAINTAINING AN ACCEPTABLE LEVEL OF CARE AT A REASONABLE PRICE FOR THE AMERICAN PUBLIC.

MR. CHAIRMAN, I APPRECIATE THIS OPPORTUNITY TO PRESENT NOT ONLY MY VIEWS BUT THOSE OF INDIANA HOSPITALS AND WE REQUEST CONSIDERATION OF THESE VIEWS AS THE DEBATE OCCURS ON THE FEDERAL BUDGET, PARTICULARLY AS IT RELATES TO THE MEDICARE AND MEDICAID PROGRAMS. INDIANA HOSPITALS ARE A SIGNIFICANT FACTOR IN THE PROVISION OF SERVICE TO HOOSIERS AND THE INDIANA ECONOMY AS ILLUSTRATED IN EXHIBIT "1".

Hospital
Association

EXHIBIT 1

FACTS ABOUT INDIANA HOSPITALS

- *Indiana has 115 general community hospitals
    - *53 are owned by state and local government (51 by counties)
    - *4 are investor-owned
    - *58 are owned by communities, religious organizations or other not-for-profit organizations

- *Hospitals are located strategically thoughout the state
    - *58 counties have one hospital
    - *19 counties have more than one hospital
    - *15 counties use the hospitals in neighboring counties

- *Indiana hospitals contribute greatly to the economy of the state
    - *with a payroll of nearly $1.48 billion
    - *with other expenditures for supplies, services, drugs, etc., of more than $1.15 billion
    - *Hospitals employ approximately 74,000 persons. In many communities the hospital is among the top 3 employers in terms of persons employed

- *Indiana hospital costs are under the national average
    - *Average cost per case at an Indiana hospital is $2,533, which is $256, or 10% under the national average cost
    - *Average rate increase during 1984 was approximately 6% compared to 9% for 1983, 12% for 1982, and 13% for 1981, all below the national average.

3921 N. Meridian Street • Indianapolis, IN 46208 • 317-926-1395

Hospital Association

EXHIBIT 2

INDIANA HOSPITAL INPATIENT UTILIZATION

Data collected from Indiana hospitals relating to inpatient activity for the first nine months of 1984 indicate significant declines in inpatient utilization of hospital services. Admissions declined 3.1%, average length of stay decreased 11.0% and inpatient days declined 13.3%. Indiana results are similar to those being experienced nationally.

Trends, a publication of the American Hospital Association, reports that inpatient utilization in community hospitals throughout the United States has sharply declined. The following chart compares the Indiana and national utilization changes during the first nine months of 1984.

Hospital Inpatient Utilization Changes
Nine months ended September 30, 1984

	Indiana	National
Admissions:		
Under 65	(3.6)%	(4.5)%
65 and over	(1.9)	(2.7)
Total	(3.1)	(3.9)
Average length of stay:		
Under 65	(8.1)	(3.6)
65 and over	(13.9)	(7.8)
Total	(11.0)	(5.2)
Inpatient days:		
Under 65	(11.6)	(7.9)
65 and over	(15.9)	(10.3)
Total	(13.3)	(8.9)

Indiana admissions declined at a rate lower than the national experience. However, greater reduction in average length of stay caused a more significant decline in Indiana inpatient days. The utilization declines are projected to continue into 1985 but at a lesser rate of decline.

Indiana hospital outpatient services also declined. Emergency room visits were down 5.5%, and clinic visits down 8.0%.

3921 N. Meridian Street • Indianapolis, IN 46208 • 317-926-1395

YELLOW LIGHT SYNDROME

Senator **Quayle**. I think I would like to go back to Dr. Arensman's comments and analogy of this yellow light, where we are just going to, slow down these programs. You suggested a 2-year freeze. Others suggested a 1-year freeze, but basically reduce spending. The problem is this "yellow light syndrome" is that after slowing these programs down, when the green light comes back on, we are just going to accelerate back on up to perhaps the levels that they were before.

Should we take advantage of this deficit crunch that we have and go back and ask ourselves, as a nation, as a country, some very fundamental questions on what is in fact the responsibility of the Federal Government? And as we look through that, certainly, there are some things that we did for very well-meaning purposes—good social purposes, perhaps at the time, good economic purposes that are no longer affordable. But, given the composition of Federal spending—national defense, income security, and interest on the national debt—are about 75 percent of the budget right now, so, there is not a whole lot left. Maybe we ought to take that "yellow light" application, and go back and say, "OK. Let us not just slow down some of these programs and freeze for 1 year, or freeze for 2 years, but really to have, perhaps, program elimination." Would you advise that to some of your present economic students, that perhaps might get in to politics some day, and be able to have that opportunity to take a look at this budget too.

Dr. **Arensman**. I think that could be done under the "yellow light." I think while the "yellow light" is on, you gentlemen would have some time to really scrutinize some of these programs. I also think that some of the programs would die of attrition while that "yellow light" is on. But I think you need a breathing space to get these priorities in order, and I think it is a good analogy, and I think it might be a good tactical way to tackle the deficit.

VALUE-ADDED TAX

Senator **Quayle**. You mentioned the VAT tax. I think you are probably the first witness in the hearings we have had, that has come out squarely for a VAT tax. We had some discussion yesterday in Indianapolis about a consumption tax, which you also mentioned. I think most people, when they start thinking of a consumption tax, are talking about perhaps an energy tax of some sort. You also mentioned that.

What has been the European situation and predicament with a VAT tax? Have they found this to be terribly helpful in their economic——

Dr. **Arensman**. You do not want a long lecture.

Senator **Quayle**. No; I will turn my light back on. I just want a——

Dr. **Arensman**. Every major country in Europe uses a value-added tax as the principal form of revenue raiser. It is a prodigious form of raising revenue.

Senator **Quayle**. It is.

Dr. **Arensman**. And by taxing what essentially is a gross markup kind of thing, it gets a whole lot of revenue, repeatedly, from small exchanges. It relieves the underground economy of some of its operations. If we did this, we would have a one-shot inflationary boost, of course, which would be small.

We would have to exempt food and medicine, and perhaps housing to avoid the regressive character of a VAT. But there are a lot of good things to be said for a VAT, and I hope the Congress continues to investigate that.

Senator **Quayle**. Would this be a temporary tax?

Dr. **Arensman**. Oh, no.

Senator **Quayle**. You would make it permanent or temporary?

Dr. **Arensman**. If I were the emperor, I would phase out the income tax and phase in the value-added tax.

Senator **Quayle**. You would phase out the income tax?

Dr. **Arensman**. I would phase down the income tax and phase in the value-added. The reason would be to tax consumption rather than savings and investment.

TAX SIMPLIFICATION

Senator **Quayle**. Yes, Mr. Dittoe, let me ask you a different question. I accept what you have said on the spending restraint, that it has got to be across the board. What does your membership think of the idea of tax simplification? Can you give us a report or consensus on whether they genuinely support it, have modest questions about it, serious questions, grave questions?

Mr. **Dittoe**. Yes, they support it, but I am afraid that being human beings, that they support it in the same way that Mr. Matthews suggested, as long as it is taxing someone else. Obviously, business has, as individuals do have, ways of taking certain deductions on what it is that they would pay. What the Senate needs to address, however, are those kinds of investments that business can take advantage of, that really means a long-term benefit to the United States, and not just a short-term benefit to an individual company.

And I think that there is a moral conscience that does exist in the corporate leadership of our small businesses, and our large business also, and it is recognized that it would be painful.

However, I think they would be willing to shoulder that part of the pain. They suffered, I think we have to remember, through the seventies, with the cruelest tax of all, and that was inflation. And when they had to go to borrow money, those interest rates were very prohibitive to many of them, and many of them went out of business.

So I think that the business people, in general, Senator, are willing to take short-term pain for long-term gain, and that would benefit their businesses and their employees.

INDIGENT CARE

Senator **Quayle**. OK. Mr. Gent, we have talked about this before. I would like just to have you comment on the issue of indigent care. As you know, it is an acute problem, particularly in some of your urban areas, with prospective reimbursement, and other things that are filtering in. We have got this problem of making sure that the poor are taken care of. And sometimes you see this cost shifting going on. It is a difficult situation.

Having heard the testimony and the discussion, that in the past, when we had a problem as indigent care for hospitals, that the first people who would be knocking on the door would be those of us in Washington, who would say: "You know, we have got this problem out here of indigent care, and therefore, we need some Federal receipts."

However, you and others have been very reluctant, and properly so, to say: There is going to be a Federal resolution to this problem." As a matter of fact, the American Hospital Association fairly well came out and said: "Look, there probably is not going to be a Federal resolution." Therefore, it looks like that issue itself is probably going to fall back in to the State and local units of government, the private sector, to deal with this indigent care.

Would you care to comment on that issue because it is one that is arising. How do you see this working out, and is this not somewhat of a modern day phenomenon?

UNIFORM APPROACH NEEDED FOR INDIGENT CARE

Mr. **Gent**. I think you are probably correct, that it is going to fall back to the State for some kind of resolution. I think the press here has quoted me in newspapers and on TV in the past some of my feelings about indigent care. Hospitals have carried a great deal of responsibility of indigent care in the past. It has been supported by the paying patient, or those who have been third-party reimbursers, or have paid the bills, and it has been spread out over those paying patients. We have maintained all the way along that it is the responsibility of the public, and the taxpayer, with regard to the indigent care of our State, and not the sick patient. The sick patient in the hospital who is paying the bill today should not necessarily pick up the tab for the indigent care of our county and our State. So the health care industry, particularly in the State, feels like that there should be some legislative endeavor on the part of the State to assist, and help, and provide for funds to the counties, to pick up the indigent care in our State.

We have a problem in the State of Indiana. Not only is indigent care a problem nationally. In fact it was identified at the AHA Convention last year in Denver, that out of four issues in the Nation, indigent care was one of those four issues

And the Indiana Hospital Association has identified indigent care as one of the major issues in Indiana. The problem we have in the State of Indiana is we have so many inequities in the various counties about how they pay for indigent care. This county, or that county pays in one way, and then they run out of funds, and then they do not have funds for indigent care, where, somewhere else, in another county, it might be entirely different than that. And we feel like, in the State of Indiana, there should be some uniform approach of taking care of the indigent in our State. Now I do not know how we are going to resolve that, where the counties, in some way, put in some uniform amount of money in to a State fund to be paid for indigent care throughout the State, or, what kind of system we are going to come up with. But we see the indigent care increasing in time, not decreasing in time. As reimbursement from freezes on Medicare, if that happens in the future, that will lessen the amount of money in hospitals and will lessen that cash flow that is available, or part of it available for indigent care, and so that is going to increase that amount, that responsibility for the sick patient.

So it is a high priority of the Indiana Hospital Association to work with the legislative process in the State of Indiana, and see if we can come to some resolution. And I think you are right, and probably, it is going to be handled in the State rather than at the Federal level.

RESPONSE OF LOCAL COMMUNITY TO BUDGET REDUCTIONS

Senator **Quayle**. Mr. Matthews, as we look on the budget restraint and perhaps the freezing, of various programs to various areas—particularly, look at Evansville, or Ft. Wayne, Indianapolis—how do you see—what do you think will be the response of the local community, from your viewpoint, to these budget reductions that are going to come in the years henceforth?

Do you think we will be able to get along? Do you think it is going to be, really, an undue hardship? Do you think that we will piece it together and ccme up with some creative alternatives that might surprise a few people? From your vantage point, how do you read this, as you listen to what is possibly going to happen, and what has been said here today?

PEOPLE WILL ACCEPT CUTS IF FAIR AND EQUITABLE

Mr. **Matthews**. When you look at it, I do not think we have a choice as to what needs to be done. I think the people realize that. I put some comments to the side—if an opportunity would develop, I mentioned it—I think we are in a "catch-22" situation. We are damned if we do and we are damned if we do not, and people realize that. We can put off addressing the budget deficit. It is going to come back and haunt us, going to haunt us even greater in the long run. I think they realize that.

I think they realize we are all going to have to take the cuts. We are all going to have to sacrifice. We are all going to have to make the necessary adjustments. For me, it will be approaching Mr. Gent, to my right, and asking for a dues increase. That is how I will take care of it, and my other members, 150 members.

Mr. **Gent**. My hospital costs will go up.

Senator **Quayle**. That is your "catch-22."

Mr. **Matthews**. Yes; but when we look at it, I think that when we get everything in order again, whenever we run out of money, or the local government cannot fund it, or the State does not want to do it, and we cannot afford it in the private sector, then we have always gone to the Federal Government, and they have almost always said yes.

I think we have come to the point where we have to reexamine the role of Government, that put out that yellow light, slow things down. Where are we? Everywhere you turn, Government is in our lives. Everywhere We have to reexamine where we want it to be, and with it being in our lives everywhere, we do not have anywhere else to look, the reason why the costs are so high. It is there. You go to the gas pump. You see it on the sticker, this meter has been checked by weights and measures. Everywhere you turn.

So I think we are going to have to reexamine what we want Government to be, what we want it to do, what services we want to provide.

Right now—if nobody else can afford it, we will let the Federal Government pay for it. That day has come and it has passed now. So I think people will accept the cuts, accept the reductions and eliminations, if they are fair and equitable, and I think as most everybody has said so far, across the board.

REDUCE OUTLAYS RATHER THAN INCREASE REVENUES

Senator **Quayle**. I tend to agree. I think that this chart right here probably says it better than any, where you can see that the revenues over the years have been somewhat static, but where really, the increase has come, basically, from 1978–79 through about 1983–84, has been on the outlays and expenditures, and that is where the gap has been created. And therefore if you want to get back to an historical pattern, on an historical basis, that you are going to reduce those outlays rather than increase those revenues.

Gentlemen, thank you very much. It has been very informative, and I look forward to any future comments that you may have, and this will be part of the record.

The next panel is Mr. William Kessler and Mr. William Laudeman.

STATEMENT OF WILLIAM A. KESSLER, TRUSTEE, ALUMINUM, BRICK AND GLASS WORKERS INTERNATIONAL UNION, LOCAL 104, NEWBURGH, IN

Mr. **Kessler**. Senator Quayle, first of all, it is a great pleasure to be here. I think that you have had an opportunity to talk to some of our colleagues in Washington, so we appreciate the opportunity of coming here to Evansville, and giving us the same opportunity.

First of all, my views here do not necessarily represent the State or the AFL–CIO. Basically, what I am rendering is a work floor perspective. My views represent a local union, and a union is concerned for its membership in the community in which they reside. I am currently a trustee and the editor of the local's newsletter, and my first concern, or our first concern would be with the proposals to do away with Federal revenue sharing to the counties and the cities. This means that Vanderburgh County would have to furnish $1 million to rent space in the civic center annually. Also, the city of Evansville would have to find $1.3 million to pay Evansville Police Department salaries. This means increased local property taxes for everyone, city and county.

We understand that there have been Federal tax cuts. Our members do not disagree on this; however, we must take a cautious regard for the workingman's family. Increases in State and local taxes, plus higher Social Security and gasoline taxes at the Federal level will more than offset any benefits accrued from a tax cut.

WHAT PROPOSED BUDGET CUTS WILL MEAN

The true Trojan horse of the proposed budget cuts is a shift in program funding responsibility from the Federal level to the State and local levels.

And also, proposed budget cuts may mean children going hungry. It means that the Evansville-Vanderburgh County School Corp. will have to reduce, in fact eliminate, some of the free and reduced-cost lunch programs for schoolchildren.

Also proposed budget cuts are an attack on the lifeline of the Nation, our farmers in particular. These budget cuts would cut farm subsidies by approximately 50 percent and curtail all soil conservation programs.

With continued low crop prices, plus the severe drought of the last 2 years, the farmer has had to take a lot. Government wants a strong defense, but also we think that a strong farm program is very important. I talk about farmers because a large percentage of our people are farmers. We are proud of A.B.G. Local 104. We have an active Community Services Committee, but under the proposed budget cuts, this committee could be rendered functionless by virtue of high demand, and we are very concerned about that. Social services cuts will mean no more legal services organization, which provides legal service for the needy.

Also, the Community Action Program of Evansville, which will receive $254,575 in block grants this year, will cease to exist. This means that programs such as weatherization and home repair for the poor and elderly, assistance to the poor, and distribution of surplus commodities, to name a few, will be gone.

We feel that proposed cuts will all the more add on the current assault on social programs for the elderly. Federal assistance that most older Americans heavily rely on, we find that during the last 4 years, major program cuts for older Americans amount to $24 billion, or $900 for everyone age 65 or older, and Social Security benefits cuts amount to $9 billion, Medicare, $12 billion.

These two programs are relied on by older Americans. As a recent result of some of these ravages on the elderly, 400,000 fewer older Americans receive food stamps, and over half a million older Americans lost Medicare coverage.

Also, 160 million fewer meals were served under the Federal Nutrition Program, and 6,000 fewer federally subsidized housing units were made available for the elderly during the past 4 years.

WELFARE GUIDELINES TIGHTENED

I am a 50-year member of the Vanderburgh County Welfare Board, and I would like to touch on a couple points there, too, concerning, some of the guidelines have been tightened. This tightening is usually reflected in either lower allotments, as seen in the monthly reporting requirement, or in total ineligibility, as seen in the elimination of strikers on food stamps. As less food stamp dollars go in to the community, more demand is made on local food charities.

The second area we are concerned with deals with the proposal to require more persons to complete community service for their benefits, or otherwise known as work fare.

We saw firsthand the abuses and shortcomings of the system as it affects families. "Breadwinners" would purposely disappear from the household resulting in a lower allotment. In reality, the household size stayed the same, but survived on a lower allotment.

In reality, the household size—well, anyway, the whole household suffered because of an individual's refusal to work. If work fare is reintroduced, we are sure to see this old problem resurface.

WAYS TO REDUCE DEFICIT

The answer in reducing the Federal deficit is not budget cuts. We must discontinue tax loopholes for corporations and the wealthy, strengthen and vigorously enforce U. S. trade laws, and repeal tax incentives for companies who move their operations abroad. To close this widening and destabilizing gap, we must save American industry and jobs, and put Americans back to work. Thank you.

Senator **Quayle**. Thank you very much, Mr. Kessler.

Mr. Laudeman.

STATEMENT OF WILLIAM D. LAUDEMAN, ESQ., PRESIDENT, CHAPTER 326, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES, EVANSVILLE, IN

Mr. **Laudeman**. Yes. My name is William Laudeman. I am president of chapter 326 of the National Association of Retired Federal Employees, here in Evansville, and I am also vice president for area 7 of the Indiana Federation of Chapters. That basically comprises southwest Indiana and encompasses about 20 percent of the 26,000 retired Federal employees in the State.

EFFECT OF PROPOSED CUTS FOR FEDERAL EMPLOYEES AND RETIREES

Our concern is with the proposed cuts in entitlement programs, and particularly, with the cuts proposed for Federal employees and retirees, and I would like to give you an example of what effect some of these cuts will have on the national and Indiana economies.

As of September 30, 1983, there were 1,811,704 annuitants under the civil service retirement system, receiving $1,965,698,840 a month in payments; for Indiana, the figures were 25,652 annuitants receiving $21,380,254 monthly. There also were 39,316 active Federal employees in Indiana as of December 31, 1982, receiving $71,397,856 monthly in salary.

Now what these OPM figures mean is that each 1 percent increase for annuitants adds $196,567,884 monthly to the national economy, and $2,138,026 monthly to the Indiana economy. Likewise, each 1 percent cut or delay costs the U.S. and Indiana economies these amounts. Similarly each 1 percent increase for active Federal employees adds $7,139,786 to the Indiana economy and each 1 percent cut or delay deprives the State's economy of an identical amount. You can see that the proposed cut in Federal employee salaries would cost the Indiana economy nearly $36 million a month, actually more, since small increases were allowed in October 1983 and October 1984.

The proposed cut also would cost the Treasury $0.4 billion in payments in to the Social Security and civil service retirement funds in fiscal year 1986, $0.7 billion in fiscal year 1987, and $0.9 billion in fiscal year 1988.

Skipping the cost-of-living increase for retirees at the end of 1985 would cost the national economy nearly $800 million a month, and the Indiana economy $8.5 million a month, assuming a 4-percent cost-of-living increase otherwise would result.

The irony of these proposals, of course, is that cities and States—and Indiana has been one of the leaders—have been spending huge sums to bring new industries and new jobs to their States. They have made, and are making, many concessions to induce industries to relocate here. Yet, by merely allowing Federal employee salaries and Federal retiree annuities to keep pace with inflation, you could pump considerable sums of money into the economy of every State at no additional cost to those jurisdictions. The situation becomes magnified greatly when you consider the proposal to skip the January 1986 cost-of-living increase for 37 million Social Security beneficiaries.

Now cost-of-living adjustments for both Social Security beneficiaries and civil service annuitants are paid out of trust funds that are designed to finance those payments.

The only thanks that is gained from these cuts and delays, and omissions, is that the Treasury will be able to borrow the funds remaining in those trust funds at a lower rate of interest than if it went in to the private money market.

LESS PURCHASING POWER FOR RETIREES

The disadvantage, of course, is that the Social Security beneficiaries and the civil service annuitants have increasingly less purchasing power with all of its attendant damage to the national and State economies. It seems to make little sense to provide a given level of benefits at the time of retirement, and then let inflation cut the value of those benefits, so that people in their seventies, or eighties, for example, have less on which to live than when they first started to get benefits.

To me, it stands to reason, if a person has more money, he can buy more; if he can buy more, there is a need to produce more. And if there is a need for more goods and services, there is a need for more workers, each of whom will be paying taxes, increasing the Government revenues, and decreasing the need for Government services and payments like unemployment compensation, or supplemental security income, or welfare payments, and the like. And this would seem to fulfill the administration's objective of making its citizens more self-reliant and less dependent upon the Government.

Now conversely, if the people have less money, they cannot buy as much; if they cannot buy as much, there is no need to produce as much. And if there is no need to produce so much, there is no need for so many workers; with fewer workers Government revenues fall and demands for goods and assistance from Government increase.

Yet the Federal budget for fiscal year 1986 proposes more cuts and benefits for the poor, the aged, and Federal workers, and retirees. Now in recent years, the main increases in Federal spending have been in the area of payments to individuals, interest on the national debt, and military spending.

The other functions of Government have remained either the same, or taken a smaller percentage of the national budget. The target of the Reagan administration seems to have been against these so-called entitlement programs that are financed from their own trust funds. And as I find out, I think it is foolhardy to be continuing to cut them and reducing the purchasing power of individuals.

HOW TO DEAL WITH THE DEFICIT

Now, you may wonder what I suggest as a means of grappling with this Federal deficit, and I would suggest three items.

First, that you limit the military expenditures to those necessary to meet our national security objectives. That is a very vague term, and what I would suggest specifically, that the Budget and Armed Services Committees of the Senate and House, both, seek the opinion of the former Secretaries of Defense, former National Security Advisors, and former members of the Joint Chiefs of Staff, as to what the level of military spending should be. Get some independent opinion, rather than relying exclusively on the opinion of members of the Reagan administration.

There is considerable public dissatisfaction with the level of military spending. I do not think most people or members of the general public would be able to tell you, with any accuracy, what it should be, but I think some of these people who have been intimately acquainted with it in the past, could provide very good guidance for you.

Second, I think the Government should be maintaining the purchasing power of all individuals, so the economy can grow and Federal revenues increase through having more people paying taxes, and fewer people needing goods and services from Government.

Third, I think that the tax rate should be set at a level that will provide adequate funding for the Government, and they have, in my opinion, in the past, been set at rates that are designed to encourage investment by business and industry. Well, there is a recent study by the Citizens for Tax Justice, that shows that industry has not been putting all its profits back in to the economy. But you take a consumer, particularly one of limited income, and he has to spend practically 100 percent of his income. That keeps the economy moving.

But a business, or industry, can simply retain its profits or distribute them to its stockholders, ankd I think the focus there has been wrong.

Senator **Quayle**. Mr. Laudeman, I want to put your entire statement in the record. If you might just summarize, so I can ask a couple of questions, and then get our final panel, since the red light has come on.

Mr. **Laudeman**. Well, I did not notice that. I was involved.

Senator **Quayle**. Fine.

Mr. **Laudeman**. Well, I just wanted to leave you with the plea to look at the benefits of maintaining the purchasing power of all Americans. If this is done, I am confident that the desire of every

American to achieve as high a standard of living as possible will lead to prosperity for business and industry, and increase tax revenues for the Government, and less need for Government goods and services. And that will be the ultimate solution to the problem of the deficit.

Senator QUAYLE. Thank you very much.

[The prepared statement of Mr. Laudeman follows:]

4

Statement of William D. Laudeman, Esq.
Before Committee on the Budget, U.S. Senate
February 12, 1985, Evansville, IN

My name is William Laudeman. I am president of chapter 326 of the National Association of Retired Federal Employees here in Evansville, and vice president for Area VII of the Indiana Federation of Chapters. The latter means that I have administrative responsibility for the NARFE chapters in Evansville, Vincennes, Washington, IN and Patoka Valley (Jasper). I am an attorney licensed to practice in the state of Maryland, before the United States District Court for the District of Maryland, and before the Supreme Court of the United States. I have not taken the examination necessary to be licensed to practice in the courts of Indiana.

Each year since 1981, we have been told that we must increase military expenditures substantially, cut and then maintain lower tax rates, and reduce domestic spending to trim the Federal deficit. The budget for fiscal year 1986 makes the same recommendations and suggests that similar recommendations will be made for succeeding years. I think we need to take a look at what these policies have accomplished, and whether they represent the appropriate national priorities.

In a report made public last July, the defense subcommittee of the House Appropriations Committee charged that we still were not prepared to fight a sustained war despite the huge increase in military spending. A recent report by the Citizens for Tax Justice shows that 238 large companies reduced their investments 15.5% and raised their dividends 17% over the three-year period 1981-1983. At the same time, the nation was experiencing its highest levels of unemployment since the Great Depression of the Thirties, and the Census Bureau found that the number of Americans living in poverty--defined as an annual income of less than $10,178 for a family of four--rose from 34.4 million in 1982 to 35.3 million in 1983, or 15.5% of the population. From 1979 to 1983, the number of poor people in the U.S. increased by 35%, with Indiana especially hard hit. Between 1980 and 1982, Indiana lost more than 206,000 jobs, almost 90,000 residents, and 2,200 businesses, according to information released by the Census Bureau and the Commerce Department's Bureau of Economic Analysis. More debt already has accumulated under the Reagan administration's four budgets to date than was incurred in all the years from George Washington through Jimmy Carter and, based on projections in the fiscal year 1986 budget, 50% more debt will have accumulated under the administration's eight budgets. Yet, with the proposed cuts in domestic spending proposed in the FY 1986 budget, there will be even fewer resources to help those in need.

Let me give you an example of what effect some of the cuts proposed for Federal employees and retirees will have on the national and Indiana economies. As of September 30, 1983, there were 1,811,704 annuitants under the civil service retirement system receiving $1,965,698,840 a month in payments; for Indiana, the figures were 25,652 annuitants receiving $21,380,254 monthly. There also were 39,316 active Federal employees in Indiana as of December 31, 1982, receivng $71,397,856 monthly in salary.

What these OPM figures mean is that each 1% increase for annuitants adds $196,567,884 monthly to the national economy and $2,138,026 monthly to the Indiana economy; likewise, each 1% cut or delay costs the U.S. and Indiana economy these amounts. Similarly, each 1% increase for active Federal employees adds $7,139,786 to the Indiana economy, and each 1% cut or delay deprives the State's economy of an identical amount.

You can see that the proposed cut in Federal employee salaries would cost the Indiana economy nearly $36 million a month--actually more, since the administration grudgingly allowed small increases in October 1983 and October 1984. The proposed cut also would cost the Treasury $0.4 billion in payments into the social security and civil service retirement funds in FY 1986, $0.7 billion in FY 1987, and $0.9 billion in FY 1988. Skipping the cost-of-living increase for retirees at the end of 1985 would cost the national economy nearly $800 million a month and the Indiana economy $8.5 million a month (assuming a 4% increase otherwise would result).

The irony of these proposals, of course, is that cities and States--and Indiana has been one of the leaders--have been spending huge sums to bring new industries and new jobs to their states. They have made, and are making, many concessions to induce industries to relocate. Yet by merely allowing Federal employee salaries and Federal retiree annuities to keep pace with inflation, you could pump considerable sums of money into the economy of every State at no additional cost to those jurisdictions.

The situation becomes magnified immensely when you consider the proposal to skip the January 1986 cost-of-living increase for 37 million social security beneficiaries. Cost-of-living adjustments both for social security beneficiaries and civil service annuitants are paid from trust funds rather than general revenues of the Treasury, and the only advantage to be gained from repeated cuts and delays and omissions is that the Treasury will be able to borrow more money from these funds at lower rates of interest than it might be able to do in the private market. The disadvantage, of course, is that social security beneficiaries and civil service annuitants have increasingly less purchasing power with all of its attendant damage to the State and national economies. It makes little sense to provide a given level of benefits at the time of retirement and then let inflation cut the value of those benefits so that people in their seventies or eighties, for example, have less on which to live than when they first started to get benefits.

It stands to reason that if a person has more money, he can buy more; and if he can buy more, there is a need to produce more. And if there is a need for more goods and services, there will be a need for more workers--each of whom will be paying taxes, increasing Government revenues and decreasing the need for Government services and payments (unemployment compensation, supplemental security income, welfare payments of all types, etc.). This would seem to fulfill the Administration's objective of making its citizens more self-reliant and less dependent upon Government.

Conversely, if people have less money, they cannot buy as much; and if they cannot buy as much, there is no need to produce as much. If there is no need for so much production, there is no need for so many workers. And, with fewer workers, Government revenues fall while demands for Government assistance and services increase. Yet the Federal budget for fiscal year 1986 proposes more cuts in benefits for the poor, the aged, and Federal workers and retirees.

Total government spending for Federally-administered retirement, disability, and unemployment programs, such as social security, railroad retirement, military retirement, civil service retirement, and unemployment compensation, along with other smaller retirement and disability programs, are estimated to cost the Government $275.9 billion in FY 1986 under present law. Of this amount, $25.3 billion--or 9%--is attributed to civil service retirement costs. Yet out of a proposed FY 1986 savings of $1.4 billion from this entire category, $800 million--or 57% of the total--is targeted to come from civil service retirement alone. Looking at the 3-year period ending with FY 1988, civil service retirement cuts of $4.2 billion would account for 61% of the $6.9 billion reductions recommended for this category of Federal spending. I cannot see the logic of it.

I recognize that increasing Federal deficits make it more difficult for private business and industry to borrow capital for expansion--if they have any intentions of doing that. I recognize that increasing Federal deficits tend to keep interest rates artificially high, making it more difficult--and in some cases impossible--for consumers to buy big-ticket items such as homes and automobiles. They also discourage capital investment by industry and curtail business expansion and the creation of new jobs.

What then should be our national priorities? What should we do about the Federal deficit?

I would suggest three lines of approach:

1. Limit military expenditures to those necessary to meet our national security objectives. (Former secretaries of defense, national security advisers, and members of the joint chiefs of staff should be able to help the Congress determine the appropriate level of spending).
2. Make every effort to maintain the purchasing power of all individuals, in order that the economy may grow and Federal revenues increase through having more people paying taxes and fewer people needing Government services and assistance.
3. Set tax rates at a level which will provide adequate funding for Government services and assistance needed to maintain individual purchasing power, rather than at rates that hopefully will encourage more investment by business and industry.

History has shown that business and industry can retain their profits without reinvesting them (as the study by the Citizens for Tax Justice shows) or merely distribute them as dividends to their stockholders. But consumers--and particularly low-income consumers--must spend most or all of their income for goods and services. This has the effect of sustaining the economy and promiting its growth. I think, therefore, that the long-range answer to the problem of the Federal deficit lies in closer scrutiny of military expenditures and closer scrutiny of tax benefits for business andindustry which have not achieved their objective of promoting greater capital investment--not in creating greater hardships for the less advantaged vy further cuts in domestic spending.

I especially think it is false economy to propose and make further cuts in benefits for Federal employees and retirees. The executive branch of government is dependent upon Federal employees to carry out the decisions of its policymakers, and needs the most capable and well-motivated work force it can get to do so. One of the principal attractions of Federal employment in years past has been the civil service retirement system, and further cuts in retirement benefits not only will serve to discourage the best and brightest young people from entering Government employment but betray the trust placed in the Government by those who served it long and faithfully and no longer are able to continue doing so.

I leave you with the plea to look at the benefits of maintaining the purchasing power of all Americans. If this is done, I am confident that the desire of every American citizen to achieve as high a standard of living as possible will lead to prosperity for American business and industry, increased tax revenues for Government, and less need for Government goods and services. Then, and only then, can we hope to have the kind of America envisioned for us by our founding fathers. Thank you.

PART-TIME FARMERS

Senator **Quayle**. Mr. Kessler, how many of the people you work with in your union are farmers?

Mr. **Kessler**. Well, first of all——

Senator **Quayle**. Do you have any idea of how many of them are part-time—I guess they are part-time farmers?

Mr. **Kessler**. Right; I work at Alcoa, and which is located in a rural environment, and a lot of people own small acreage, ten acres. Some of them go as high as 2,000 acres. So, I guess a percent, I would say, probably 2 to 3 percent.

Senator **Quayle**. Just a very small number?

Mr. **Kessler**. Well, true, but——

Senator **Quayle**. OK. I was just struck by it. I know that there are a lot of part-time farmers, but the fact that you mentioned it, I figured that the percentage might be a little——

Mr. **Kessler**. Of course I am only talking about Indiana. We also have a large group of people who also have farms in Kentucky.

BE FAIR WHEN REDUCING THE DEFICIT

Senator **Quayle**. OK. Mr. Kessler. In the testimony today on trying to reduce the budget deficit, you talked about some of the problems, eliminating revenue sharing, and other things, and I certainly understand exactly what you are saying. To reduce the deficit, which I think, from your testimony, I gather is important to do, do you think we should reduce that deficit by spending cuts, or by tax increases, or by both? If you had to make that decision or recommendation, how do you think we ought to reduce that deficit?

Mr. **Kessler**. Well——

Senator **Quayle**. And what do you think—and also speak for yourself, and what your workers would say, if I had asked them that question when they are out there working at Alcoa, and I say, "OK, fellows, gals, we have got a big deficit out there, and we can decrease it by spending cuts or tax increases." What do you think they would say?

Mr. **Kessler**. I think they would probably say a combination of both, but I think what they would say, more than anything, and, understand, they are going to give very basic answers, that they would say, "Let us just be fair. OK? I just want everything to be fair, and ask for nothing else." And especially on taxation. That seems to be a very big complaint of most of the members on the floor.

WORKERS SAY THEY ARE OVER-TAXED

Senator **Quayle**. If you look at taxation, do they think, as far as the fairness point of view, that they are probably under-taxed right now, or, do you think that they would say that they are over-taxed?

Mr. **Kessler**. I would say a large percentage of them would probably say they are over-taxed.

Senator **Quayle**. Over-taxed. Do you think they would be willing, if there were spending cuts, and if there was fairness, to pay more taxes?

Mr. **Kessler**. Well, I am not qualified to comment on that either, OK?

Senator **Quayle**. I do not want to push you. If you do not feel comfortable answering it, do not answer it.

Mr. **Kessler**. Sure.

Senator **Quayle**. What I am trying to do is get a feel because we have to go through this all the time.

Mr. **Kessler**. Yes; I understand.

Senator **Quayle**. I do not want to push you to give an answer that you do not feel comfortable with.

Mr. **Kessler**. I would say this, is that——

Senator **Quayle**. But we have got that choice. We have got to either do it by spending cuts, which is my personal preference, to try to get the spending cuts under control, rather than tax increases, but, if the people are saying, no, we want these programs, they have been good programs, then are we willing to pay for these programs? And the way you pay for them is going to be through more taxes.

Mr. **Kessler**. I think one thing that is really obvious, that they see, is the gross variation between what is corporate tax and the taxes that they pay as far as percentage of income. And this is quite obvious to them, and this seems to be another complaint that I hear quite often.

TAX SIMPLIFICATION

Senator **Quayle**. I would imagine, that given that point of view, which I think it is prevalent, that they would probably be fairly strong supporters of the idea of tax simplification, an idea I have been talking about for a long time. We introduced it back in 1982, and now the President is talking about it. Is there much talk in the shop about tax simplification? What it does is talking about fairness, not only for the individual, but it is also talking about corporations paying their fair share of taxes. There are a lot of corporations that we have today in America, international conglomerates that do not pay any taxes.

Now there is a sense of equity there, of imbalance, so I would have just surmised that they would probably be strong supporters of tax simplification, am I right?

Mr. **Kessler**. In a general statement, perhaps, I guess, but one thing—it needs to be put in simplified terms so that they can understand, brought down to the grass roots basics. It is either yes or no. That is the only thing that they really understand. There is a lot of gray area in between, so, perhaps what you are saying is true.

Senator **Quayle**. Mr. Laudeman, one question I had for you is, that there has been a lot of discussion, and we have heard a lot of witnesses say, "OK. Make it across the board."

Mr. **Laudeman**. That merely perpetuates the injustices of the past.

Senator **Quayle**. So in other words, you do not think it should be across the board?

Mr. **Laudeman**. No; I think——

Senator **Quayle**. There are some sacred cows out there, in your opinion?

DETERMINE PROPER LEVEL OF MILITARY SPENDING

Mr. **Laudeman**. No; I do not think they are sacred cows necessarily, but I think the first task of the Congress should be to determine the proper level of military spending, and then adjust the tax rate to encompass the most urgent needs of the Nation.

Senator **Quayle**. So, in other words, what you would say is,

> OK, you guys, figure out what is necessary to spend on defense, get an agreement, and then add up what we are spending on nondefense, and then whatever the deficit is, you had better figure out, get the revenues to pay for it.

Mr. **Laudeman**. I think you have to look to an increase in revenue because most of the proposals in the fiscal year 1986 budget have involved cuts in domestic programs, and they have been targeted for cuts, each of the last 4 years. There comes a point at which you cannot cut further without doing considerable damage to programs for which there has been a great public demand and public need.

Senator **Quayle**. So, I think I hear you very clearly. Nondefense programs have been cut enough. You should not cut them any more. Determine what the threat is, the external threat to the United States. You talked about getting somebody independent, to try to make some assessment, to get a bipartisan agreement, Republicans and Democrats, add your defense requirements to your nondefense requirements, and whatever the interest on the debt, we have to pay that. Draw the line, then should we try to put the budget in balance, I would presume, or come close to it?

MAINTAIN PURCHASING POWER OF INDIVIDUALS

Mr. **Laudeman**. Well, I do not think you are going to put the budget in balance any time soon. I think the other element you have to consider is maintaining the purchasing power of individuals, so the economy can grow, and you, over a period of time, receive increasingly larger tax revenues.

Senator **Quayle**. Yes; the only thing I would say is, that if we do that—and you cannot hold me to these figures because I am just doing it off the top of my head—I would imagine that we would probably—and let us just take a freeze on defense, which I do not think is prudent or wise. But let us just say that we will put a freeze on defense and let non-defense go.

You would probably still have a deficit of around, where you are now, maybe even a little bit more, $200, $210 billion. Now to close that in any significant way, just by revenues, you are talking about loss of purchasing power. You are talking about a pretty big tax increase to the American public, and therefore, I think that, one of the things we have really got to focus in on these spending cuts is, if we do it just by tax revenues—I think you can try to do that, but I am not so sure where the productivity is going to go.

Mr. **Laudeman**. Where else can you cut if the entitlement, or the other domestic elements, without reducing purchasing power and ultimately, decreasing the amount of revenue you have?

SLOW DOWN SCHEDULED INCREASES IN PROGRAMS

Senator **Quayle**. What about slowing down the growth in the scheduled increases in entitlement programs? Not cutting. I am not cutting basic benefits. I am just talking about slowing down the increases that are scheduled. Is that a possibility?

Mr. **Laudeman**. Well, the problem with that is that then these people are not keeping up with inflation, and they can buy less than they could a few years in the past. So you are in effect cutting their purchasing power even though you do not cut the amount of dollars they get.

Senator **Quayle**. Of course their purchasing power is dependent upon how the economy is doing, as far as inflation and other things, and, the amount of taxes that we really put on the economy is dependent upon how the economy is going to respond. If you do not have the proper economic environment out there for productivity, those that are dependent upon having the revenues generated by those that are working, and having the productivity out there, may not be there, and then we would be in worse shape than what we are right now, if the economy begins to slow down. So that is sort of the other side of the coin. Thank you both. Thank you very much.

Mr. **Kessler**. Thank you, sir.

Senator **Quayle**. Now then, our final panel here. Mr. Ulrich, Ms. Borders, Ms. Reis, Mr. Field, Mr. McKnight, and Mr. Breimeier. OK. Mr. Ulrich.

STATEMENT OF TOM ULRICH, COORDINATOR, DEPARTMENT OF SOCIAL MINISTRY, CATHOLIC CHARITIES BUREAU, DIOCESE OF EVANSVILLE, IN

Mr. **Ulrich**. First of all, my name is Tom Ulrich, and I am representing the Catholic Charities Bureau of the Diocese of Evansville, and that is a private social service agency. We get very few Federal dollars. Our funding comes basically from private donations.

I am representing that organization. I also like to think that I am representing a lot of the people that I serve, although I have not been elected to do that, but I do feel that basically, that is the position that I am going to be taking, and those people are mainly low income people.

DEFICIT REMAINED THE SAME UNTIL THE LAST FEW YEARS

I was interested in, aside from my text here, your pointing out the chart up here which is very, very interesting. One of the things that I am observing though, is that if this is a hearing dealing with the budget deficits, it looks like the deficit is that portion between the black line and the red line. And from my reading, and maybe—I am not an economist, and I am not sure exactly what is going on—but from my reading it looks like the deficit, what we are talking about, the major deficit is coming at that point where the revenues have gone down significantly, and over the last few years, and the outlays have gone up. And it looks like historically what has happened is that that deficit has basically remained the same, until the last 2 or 3 years, which I think is really the purpose of this hearing.

Senator **Quayle**. Now if you wanted to restore those, the levels of revenues back to what is that, 1978, something like that, as you see, you would still have quite a significant gap, and then it would depend on what the economy is going to do. But what the——

Mr. **Ulrich**. It looks like also, Senator——

Senator **Quayle**. What it does show is that you have been from about 1977-78, you have been on a straight upward curve——

Mr. **Ulrich**. Except the debt—again, my reading, it looks like that that line, that gap between the red line and the black line, it looks like that black line is growing, and it looks like that that gap between the two would pretty much remain the same. Again, I do not know.

Senator **Quayle**. But the revenues will be growing because there is more economic growth and economic activity, so that is to be expected.

Mr. **Ulrich**. Except that the question still remains, why that black line went right down and that is where the problem is. I will continue.

CUT BUDGET WHERE IT WILL COUNT

I am really coming here with two basic questions. The first one is whether you and the rest of the Congress is really as serious about reducing the deficits, and the second whether or not you and the rest of Congress will do that in a fair and equitable way.

I think those are two, really the main questions that are before yourself, and it is a really difficult task, which I recognize.

It seems to me, that if we are serious about cutting the budget deficit, then what we need to do is cut it where it is going to count.

In the past 4 years, the two areas which represent about two-thirds of the budget have really been the "sacred cows"—that is, the defense and the entitlement programs, specifically the Social Security. And that 75 percent of the budget cuts, over the last 4 years, have occurred with those programs that have been specifically targeted to poor people. And it seems to me—and that those programs actually represent only about ten percent of the national budget, and that if we are going to be serious about cutting the deficit, then we really need to look at that, and I was thinking about——

Senator **Quayle**. Get to where the money is.

Mr. **Ulrich**. Yes. Exactly.

Senator **Quayle**. Go where the money is.

Mr. **Ulrich**. I was thinking about in my own household, if I got into a difficulty like this, and if I went to credit counselors, and I began to try to figure out some way to deal with it, if I started talking about just reducing those areas that I am spending a little bit of money on, to try to deal with this large problem, then I am going to get laughed out of that office.

And I think that Congress really needs to take a look at that. The programs that I am specifically talking about include Housing, Food Stamps, AFDC, Supplemental Security Income, Medicaid, Legal Services, those types of programs, and as I have said, over the past 4 years, they have been the ones that have been cut the most.

EMERGENCY ASSISTANCE REQUESTS INCREASING

During those past 4 years, in my agency, we have seen an increase in the number of requests that we have been receiving in our emergency assistance department. And for about the previous 10 years, up to 1980, we were seeing approximately 125 people per month. Over the last 4 years, that has jumped to approximately 400 people per month, specifically requesting assistance for just to get by, either housing, utility bills, food, those types of things.

In doing some analysis of that, I have seen that many of those requests can be directly related to the budget cuts that have occurred over the past 4 years, and also, have been directly related to a number of the—tightening up of the different programs. The AFDC Programs, the Food Stamp Programs, the SSI Programs.

I guess I am here to say to you, that in the private sector, which has been called on by Congress and the administration, to deal with this, we simply are unable to do this. We are at this point unable to adequately respond to the number of requests that we are currently seeing, and I personally do not know of any other social service agency in the area that is able to do that, to adequately respond in a way that is going to sufficiently meet those particular requests.

The other thing that I think happens in a situation like this, and certainly this is not a criticism of you. I know that you have to deal with numbers. But I think what happens when we deal with numbers is that we lose the people, the faces that are absorbed in our actions. And I would like to just tell a very brief story about a person that I just saw last week, and this is a woman who has a husband who was unemployed for a long time, and he just recently got employment, and has about a 4-year-old child, who came in to my office.

And she was requesting rent assistance. I was trying to find out a little bit about her, and she was telling me that it took her, when her husband lost his job, about 60 days to get on the Food Stamp Program.

During those times, there were periods of time when the family did not eat, and in fact she told me specifically about a time when they went for almost 3 days without having a meal, to the point where she and her daughter, and her husband, would go out into the neighborhood, and knock on doors to kind of beg for chores to be done in the neighborhood.

And she told me that one particular house that she stopped at, the person in exchange for some food, told her that she could pick up the dog feces in the yard, and that is the kind of thing that occurred. And that is a fairly dramatic story. It certainly hit me. But it is also the kind of story that is not that uncommon with the people that I deal with.

And I think it is really important to remember the things that I started out with, and that is that we have spent the last 4 years targeting those programs that are specifically geared to poor people, and it only represents 10 percent of the budget. Let us get a little bit serious about this, and let us direct our budget ax at the appropriate places.

I would finally suggest four things. The first thing is that——

Senator **Quayle**. Excuse me. Go ahead and summarize. Can you see your light from where you are?

Mr. **Ulrich**. I see the red light. What does that mean? Stop?

Senator **Quayle**. That means to summarize very quickly, if you will. It means your time is up. But go ahead, quickly.

RECOMMENDED AREAS FOR CUTTING BUDGET

Mr. **Ulrich**. OK. I would agree with many of the recommendations that were made by the people that were here just before us. However, I do have some concerns about the entitlements. I think that is an area that could be cut. I would, however, suggest that the budget cuts come from the corporations that are not paying income tax, that you alluded to, and the higher income individuals that are not paying income tax. That that is the place that we need to make a cut. I would also say very strongly, that the Defense Department is not a "sacred cow", and that is an area where the budget cuts could be directed, and suggest that you follow that. Thank you.

Senator **Quayle**. Thank you very much.

[The prepared statement of Mr. Ulrich follows:]

CATHOLIC CHARITIES BUREAU
OF THE DIOCESE OF EVANSVILLE
603 COURT BUILDING • EVANSVILLE, IN • 47708 • 812/423-5456 •

Richard C. Rust, ACSW
Director

February 22, 1985

TO: Senator Dan Quayle

FROM: Tom Ulrich
Coordinator of the Department of Social Ministry
Catholic Charities Bureau
Evansville, Indiana

RE: Testimony on the Budget Cuts

My name is Tom Ulrich. I am representing the Catholic Charities Bureau of the Diocese of Evansville. Although not elected to do so, I honestly feel that I also represent many of the low-income people we serve.

I wish first to thank you for the opportunity to speak to you about the issue of the economy in general and the proposed budgetary actions specifically.

Senator Quayle, I come to you with two basic questions:

1. Are you and the rest of Congress serious about reducing the federal deficit?
2. Are you going to support the Reagan administration's continued assault on the poor and working-class citizens of this community?

I ask these questions in the context of the current economic struggles faced by the people who request assistance from Catholic Charities Bureau. The reality is that the economic recovery has not reached a large segment of the citizens of this country. The President and Congress have asked these people to be patient. They have been patient enough. It is imperative that our government stop making them carry the burden of ill-informed, unwise, uncaring budget decisions made by President Reagan and Congress. The real cause of the deficits must be addressed--loss of revenue through welfare to the wealthy through tax breaks and skyrocketing defense and entitlement costs. If you are serious about getting spending under control, then have the courage to (suggest/legislate for) cuts where it will count. Defense and the entitlement programs comprise two-thirds of the budget, yet, they have been declared off-limits. THAT SIMPLY MAKES NO SENSE.

ACCREDITED United Way

Page Two

Re: Testimony on the Budget Cuts

During the past four years, primary objects of budget cuts have been federal programs targeted to the poor. These programs (e.g. Section 8 Housing, AFDC, Unemployment Compensation, Medicaid, SSI, Food Stamps, Legal Services Organization, etc.....) comprise less than ten percent (10%) of the federal budget. However, they have absorbed more than seventy-five percent (75%) of the cuts. (If I had a similar deficit problem with my household budget and brought such a strategy to a budget counselor, I would be laughed out of the office.)

The President, howaver, is again offering the same formula revealing his callous and unconcerned attitude toward the poor of this nation. He is also showing us that he does not intend to reduce the deficit.

During those same four years, my Agency has been serving nearly 400 families per month in its Emergency Assistance Program. This is a dramatic increase over the approximate 100 families per month we served in the previous ten years. Many of the requests can be directly correlated to the budget cuts or policy adjustments made in "means-tested" federal programs. My Agency, in spite of increased funding for this effort, cannot adequately respond to the need. I know of no other "private" organization in this community who can - either singularly or in cooperation with other organizations.

In a hearing such as this, it is easy to forget that the numbers which are so easily and freely tossed around, ultimately get translated into faces. To jog your memory and the memory of your colleagues, I would like to relate an incident which occurred recently in my work.

A woman, whose husband was unemployed, requested rent assistance from us. She stated that because of revised food stamp regulations, she had to wait thirty days to get on the program. During that time, she and her family were relying on the food pantry system for food but that they were unable to get enough food. One particular time when they had not eaten for three days, they went door to door begging to do chores in exchange for food. One of the chores she and her young daughter was given was cleaning dog feces from a yard.

This story although dramatic, is, nonetheless, common among the people we serve. You must remember those people when you make decisions.

You must also remember that the deficits are not simply a matter of increased spending. They have also been caused by revenue losses. Recently, I have read in the local newspapers how over two hundred individuals with incomes of over $200,000 per year paid NO income tax last year; that the share of tax revenues paid by corporations has dramatically decreased in the past several years (many billion dollar corporations pay no income tax); and, that many corporations receiving tax breaks enacted by Congress in 1981 have simply used that money to increase profits rather than jobs (as was intended). This is blatantly unfair.

In conclusion, I would like to offer five general recommendations:

1. Exempt from further reductions all federal programs targeted for low-income individuals and families.
2. Cut defense spending by ten percent (10%) over the 1985 allotment.

3. Freeze for two years cost of living adjustments (COLA) in the entitlement program for those individuals and/or households receiving an annual income of $25,000 or more. In addition to this, specifically study ways to reduce the military retirement expenditures.
4. Adjust the tax structure such that upper-income individuals and corporations are unable to keep from paying income tax.
5. Expand current jobs programs. Study and develop a plan whereby public jobs can be created.

Thank you again for the opportunity to speak to your about these important issues.

REVENUES AND OUTLAYS AS PERCENT OF GNP

Senator QUAYLE. You have talked about two big items, entitlements and interest, or national defense and interest on the debt. You are talking about 75, 80 percent of the budget. Just quickly on this, what may clear it up: Over on the left of the chart is the percentage of GNP. That is the relationship of percentage of GNP that the revenues took up, and the outlays. And now, we have about a 5-percent gap of GNP, and that is what we are trying to close, which may clear up some of your questions. Because it is not total revenue or total outlays. It is the percentage of the gross national product.

Ms. Borders.

STATEMENT OF RHONDA BORDERS, DIRECTOR, SOCIAL SERVICES, PLANNED PARENTHOOD OF SOUTHWESTERN INDIANA

Ms. BORDERS. Thank you. I am Rhonda Borders. I am the Director of Social Services for the local Planned Parenthood agency, and I appreciate the opportunity to speak this afternoon. I have submitted written testimony and given the 25 copies that you asked for.

Senator QUAYLE. It will be included in the record.

TITLE X IS ONLY PROGRAM BENEFITING GOVERNMENT

Ms. BORDERS. Thank you. Title X is the Family Planning Program from the Health and Human Services Administration. It is admittedly a small piece of a very large pie, and a program which—considering the scope of the wide range of funding, and spending things that were spoken about today, really composes a very small piece of the Federal outlay. However, as far as I have heard so far today, it is the only Federal program that is benefiting the Government by saving it $2 for every $1 that it spends.

During the last 15 years, title X has garnered both widespread bipartisan support in the Halls of Congress as a categorical program, and it has proven itself to be one of the most cost-effective of all programs. Two dollars is saved in one year alone, in health and welfare service costs, for every $1 that it spent on family planning.

And when you consider the services that are provided to teenagers, the savings are even higher, $2.90 for every $1 spent because of the additional costs and problems that are represented with teenage pregnancy.

In 1984, the appropriation to the title X program was $142 million, considerably less than the peak spending of $166 million in 1981, prior to Reagan's first round of budget cuts. There has been no adjustment for inflation, but the cost of all our medical supplies, all our personnel and so forth, has continued to climb along with everyone else's medical costs.

In 1981, the local Planned Parenthood agency cut seven of its staff members, cut back on its educational programs, and over the last few years, we have continually streamlined our operation and become more efficient by doing so, we have managed to maintain the service to our clients that they are primarily in need of, and we have even seen a few more clients with fewer staff. We expect and are preparing for continuing budget cuts from the Federal Government and from the State. By March 1 I probably will not have a job, as well as five other people that are currently on the staff at Planned Parenthood.

BUDGET CUT WOULD AFFECT VITAL SERVICES

However, we feel that even though we can continue to streamline our operation to some degree, a very serious cut in the family planning budget, State and nationwide, is going to cut into the vital services that are being provided to our client, not only the kinds and variety of important services that we can provide, but also, the quality of care that these women receive.

Planned Parenthood of Southwestern Indiana is only 1 of over 2,500 agencies sponsored by the title X program. But it is evident that many family planning programs are meeting the goals that it sets for itself.

In Indiana, there were 3,000 fewer pregnancies and 2,000 fewer abortions in 1983 than in 1982, and there were additional almost 2,000 fewer teenage pregnancies in 1983. That is a 5,000 drop from 1980 and the pregnancy rate, how many pregnancies among teens per hundred, has also consistently dropped from 9.0 to 7.5 in the last 3 years. The Department of Public Welfare has documented for us that they would have spent $47 million more in welfare costs in 1984 if the average family size had not been reduced by 0.3 over the last 10 years.

We feel that family planning services being available to low-income women is a primary part in helping to reduce that family size.

So because of the important health benefits and its cost-effectiveness, I urge that you support continued reauthorization of title X. Thank you for the opportunity to speak.

Senator QUAYLE. Thank you very much.

[The prepared statement of Ms. Borders follows:]

STATEMENT OF RHONDA BORDERS

EVANSVILLE, INDIANA
SENATE FIELD HEARINGS
FEBRUARY 12, 1985

I am Rhonda Borders, Director of Social Services for Planned Parenthood of Southwestern Indiana. I would like to thank Sen. Quayle for the opportunity to speak about a vital federal program whichserves his Indiana constituents, the Title X family planning division of the Public Health Act.

Family planning is a basic health and social service that is needed, effective, and wanted by virtually all American women and their families at some time in their lives. Title X authorizes project grants to public and private nonprofit organizations for the provision of family planning services to all who want or need them, with priority given to low-income families. Title X has been a primary preventative health program for American women since its inception in 1970. At that time, the United States Congress clearly and unequivocably committed itself to enabling all individuals to freely decide the number and spacing of their children.

During the last 15 years Title X has garnered widespread bipartisan support in the halls of Congress as a categorical program; and it has proven itself to be among the most cost-effective of all federal programs. For every dollar spent on family planning, $2 is saved the next year alone in health and welfare costs. For services to teenagers, the benefit is even higher--$2.90 saved for every dollar spent.

Since Title X was reauthorized as a categorical grant program in 1981, it has suffered continued administrative harrassment and attacks on its effectiveness and service policies. These factors led to a difficult reauthorization fight in 1984, at which time the program was renewed for only one year instead of three. Therefore, we must again press our sincere concerns that this important health program be continued. The 1984 appropriation of $142 million was considerably below the 1981 levels of $166 million prior to Reagan's first round of budget cuts. There has been no adjustment for inflation, but the cost of all supplies and medical services has continued to climb. By streamlining our operation and becoming more efficient, our agency has managed to serve more clients with fewer staff and less money. However, any further reduction in funding that could not be made up by private fund-raising will seriously cut into the services available to our clients and their quality.

Planned Parenthood of Southwestern Indiana is only one of a network of over 2500 agencies receiving Title X funds that operate over 5100 clinic sites in virtually every state. In 1982, 4.6 million women were clients of these agaencies. Planned Parenthood affiliates serve 27% of the women receiving services, and have 24% of the Title X funds as part of their financial picture. In Indiana there are 24 family planning agencies, including 10 Planned Parenthoods, operating 75 clinic sites.

The evidence is also clear that family planning is a program which meets its goals. In Indiana, there were 3000 fewer pregnancies and 2000 fewer abortions in 1983 than in 1982. Also, there were amost 2000 fewer teenage pregnancies in 1983 than in 1982, and 5000 fewer than in 1980. The pregnancy rate (per 100) among teens has dropped steadily from 9.0 to 7.5 in the last three years. The State Department of Public Welfare has documented a decrease in the average family size of welfare recipients every year since 1974. If that reduction had not occurred, Indiana would have spent $47 million more than it did for welfare costs in 1984.

Because of the important health benefits of this program, and its cost-effectiveness, we urge you to support reauthorization of the Title X program as a categorical grant, at present or increased funding levels. In addition we ask that you help prevent amendments being attached to the program which would undermine the intents specified by Congress of individual decision-making and open access to all.

I speak primarily of the proposal to require parental consent or notification for the teenagers served by family planning clinics. In Evansville, as in most other areas of the country, 15% of the Planned Parenthood clients are under 18. Better than 92% have been sexually active, most for a year or more, before coming to our clinic. One-third have been pregnant, or fear they are pregnant at the time they request services. We actively encourage all of the teens we see to obtain parental consent. Forty percent have such consent before they see us, and we are successful in influencing many more to get it. Although we are mindful of the concerns parents have for their children's health care, we have not yet found a parent who would rather have their daughter pregnant than using a reliable contraceptive. Surveys tell us that 25 out of every 100 teenage clients would quit coming to a family planning clinic if consent were required, but only 2% of them would discontinue their sexual activity.

We consider the "squeal rule" proposal a violation of patient-doctor confidentiality. And I am sure that the dramatic decrease in Indiana teen pregnancy rates over the last three years could not have occurred with a "squeal rule" in place. For many teenagers the availability of confidential services makes all the difference between being sexually active and using effective contraception, and being sexually active and risking the significant health and social consequences of unwanted teenage pregnancy.

Senator Quayle, as a member of the Senate Labor and Human Resources Committee, you will again confront the many varied and complex issues of the Title X program as it travels the reauthorization process again this year. We thank you for your past support and urge you to again press for renewal of this vital program. Thank you for your attention.

Senator QUAYLE. Ms. Reis.

STATEMENT OF VERONICA REIS, ASSOCIATE DIRECTOR, OUTREACH MINISTRIES

Ms. REIS. Yes. I am Veronica Reis. I am associate director of Outreach Ministries. We are a United Methodist Agency of the Evansville District. We receive no Federal or State dollars.

ASSISTANCE REQUESTS SETTING NEW RECORDS

I am here today to speak because I am quite concerned to know how our tax money is being used. Every day we see people who are victims of this administration's budget cuts. Since 1981, the number of people we see in our office has quadrupled. We have just finished January with a record of over 700 requests for assistance.

If you think that this is Evansville, IN with—we are a small city as you know. We are one part-time staff person and two full-time, and we have seen 700 people in 1 month, which has broken all records. Four years ago, to see 300 people a month was unusual.

The people that we serve do not have money for rent, utilities or food. Those are the three main things that we provide. For the people that we serve, the economic recovery is a lie.

JOB SITUATION IN SOUTHWESTERN INDIANA VERY GRAVE

What is behind the optimistic employment statistics? The job situation in Southwestern Indiana is very, very grave. My story, of the hundreds that I hear each month, is of the former Whirlpool worker who is a single parent and she is raising two children. She is employed again at less than half of her former wage at Whirlpool. She is making between $3 to $4 dollars an hour and trying to support two children. She is employed full time but she cannot meet expenses, and comes to us for rent, occasionally.

What the employment, the optimistic employment statistics do not show, is how many of these folks are having to resort to part-time jobs. If they are lucky, 20 hours a week at McDonald's, if they are lucky to get that many hours. We are talking about heads of households.

The rosy optimistic employment picture and statistics that this administration likes to bring out does not show that these jobs for the most part are part-time, very low wages and no benefits.

SUGGESTIONS ON HOW TO USE MONEY FROM TAXES

This is what we would like to see done with our tax money, basically, money for people. I understand the School Lunch Programs again are under attack, and what that means is that several schools will have to drop out of the School Lunch Program in its entirety. We see many mothers who are in a hardship now because they depend on the free school lunches.

When the children have had so many snow days as we have had, they are running low on food because they depend on the children to eat the free school lunches.

We want to see jobs programs to create jobs, increased funding for mass transit, and a tremendous increase is needed in subsidized housing programs, and new housing starts for low income people. It is really important that the WIC Program, Women, Infants and Children's Program be restored to its full funding.

I think we need to look at the people and think about the long-term effects of these budget cuts. We are talking about real people. If you cut school lunch programs, the result of that is going to be many malnourished children who will grow up and have babies with birth defects.

PEOPLE NOT BEING REPRESENTED

You are not representing me nor the people that we serve at Outreach when you rubberstamp President Reagan's budget cuts and military proposals. The tremendous increase in military funding and development and deployment of even more new nuclear weapons continues at a staggering rate, and it is madness. Let us call it what it is: it is madness. And it will surely be to the destruction of life on Earth.

Finally, speaking as an individual voter, Senator Quayle, if you continue to vote as you have in the past 4 years for the continued elimination of people programs, and for increased funding for nuclear weapons that escalate the arms race, I myself will do everything in my power to elect a Senator in 1986 who truly works for the best interest of all the people of Indiana. Thank you.

Senator **Quayle**. Mr. Field.

STATEMENT OF CLARK FIELD, MEMBER, WITNESS FOR PEACE

Mr. **Field**. Senator Quayle, thank you for coming down today and hearing us. I have got a few clipping from the recent newspaper. This one goes back to 1984. It says, "Senate okays Reagan cuts in Medicare." I am a member of the Witness For Peace that keeps a witness on the border of Nicaragua and Honduras, and also the Local Committee For Justice in El Salvador.

Reagan's budget is close to a trillion dollars. "Reagan to propose deep public housing cuts." This is from the Evansville Courier of January 30, 1985. "Budget cuts Reagan proposes could sever local services, officials say."

"A $640 toilet seat is a throne fit for a king or an admiral." This is the one about the money for a toilet seat costing $640.

Senator **Quayle**. Do you have the coffee machine in there, too?

Mr. **Field**. No.

Senator **Quayle**. They say they paid $7,000 for that, if you can believe that.

BIGGEST WASTE IN MILITARY PROGRAMS

Mr. **Field**. We have had some examples of that. I think everybody knows, it has been public knowledge for many years, that the biggest waste is in military programs, and the Government Office of Accounting, or whatever that is, GOA or GAO, has said that many times, that how many of the programs are a fantastic waste, and we see that from time to time. But it seems to me, that the Senate and the House do not take that seriously. Here is another one from February 4, 1985. "$31 billion increase sought for military." And the article directly under that says, "Over a million college students could lose aid with the new proposals."

These I think represent the threat that we have in our society to the administration's cuts to domestic programs while continuing to escalate the military expenditure, and like Miss Reis just said, it is really insanity to think in terms of spending a fantastic amount of money on new bombs, and new military programs, and to cut the people any more than what has already been cut. Now I would like to call the Congress—the Senate and the House both—to accountability.

The first 4 years of Reagan's administration, we saw the Congress go along with most of his proposals to transfer money from domestic programs, School Lunch Programs, and Senior Citizen Programs, and all, in to military programs. And now we are talking about cutting of these budget programs even more while continuing to escalate military expenditure.

We did a sampling in the Evansville area a few years ago, and according to our random scientific survey, the people of the Evansville area, taken from our local phone book, over 60 percent of the people wanted no military, no economic aid to El Salvador, period, and it went up to over 75 percent of the people wanted no personnel at all to go to El Salvador. Yet the Congress and the President keep pushing for more people, more money, in Central America, El Salvador, Nicaragua, Honduras, and Guatemala.

PIE-IN-THE-SKY DEFENSE SPENDING RIDICULES THE POOR

We have an article here written by James G. Weigart from the Scripps-Howard News Service in the Evansville Press for January 23, 1985, and I think he sums up very well when he says, "Pie-in-the-sky defense spending ridicules the poor."

To me, it is not only an obscenity, not only insanity, but an obscenity for the President to talk about spending billions of dollars for some program, a space program of military defense, military might in the sky, while we are seeing the local citizens suffer in almost every area. And at a time when the whole world is crying out for disarmament and when our country has entered into negotiations with the Soviet Union for disarmament, to talk about going on with the sky wars plan, it simply has to be stopped.

So in summary—and I think people have pretty well summarized what all of us are feeling in Evansville—or many of us are feeling in Evansville—to hear the administration talk about Social Security cuts, housing cuts, lunchroom program cuts, student loan cuts, and so forth, and not cut the military, is against the people. And so what we are saying today is not one more penny, not one more penny for the military until there is a 10 percent cut in the 1985 military budget—not the 1986, but the 1985—and that could come out of waste, period. And to stop programs like the MX and the Star Wars, so not one more penny of cuts for domestic programs, until this happens to the military. Ten percent from the 1985 military budget. Thank you.

Senator **Quayle**. Thank you very much, Mr. Field. Mr. McKnight.

STATEMENT OF DARRYL McKNIGHT, CHAIRMAN, INTERESTED MINORITIES POLITICAL ACTION COMMITTEE OF EVANSVILLE

Mr. McKNIGHT. My name is Darryl McKnight and I am chairman of the Interested Minorities Political Action Committee of Evansville. I am also on the board of directors of the black coalition for Evansville. I am the third vice president of the local chapter of the NAACP. I am also a member of the local chapter of the A. Phillip Randolph Institute, and I am the alternate area 1 negotiating committeeman for the Aluminum Workers Local 104 of Alcoa. And my speech here is short.

RECRUITMENT AND TRAINING PROGRAM

I am here to talk about the Recruitment and Training Program of Evansville. The black coalition oversees the recruitment and training program of Evansville. RTP is a program that helps provide job training for minorities and the poor. It also helps them find jobs. It provides training for the kids who have dropped out of school, on how to look for jobs, how to apply for a job, and how to act during job interviews. RTP also helps these kids get their GED's. Another part of RTP is to provide counseling for those who have lost their jobs. RTP used to be funded directly by the Federal Government. It is now funded by the State through the Private Industry Council of Evansville.

The funding by PIC has been justly cut from what was being funded by the Federal Government. PIC has also other programs in Evansville that it funds, so the fighting for the program money is fierce.

BLACK UNEMPLOYMENT IS HIGH

As you know, black unemployment is high. For the city of Evansville, unemployment for black teenagers is between 40 and 50 percent. We need the funding in Evansville to give black kids hope, but as these cuts are made, they are losing hope.

You are asking the people who can afford it the least to make the largest sacrifices. If Congress would accept a freeze on their wages, or take cuts in pay, cut the military budget, cut waste in Government spending, and cut foreign aid, maybe the cuts in social programs would not be so deep.

I would like for you to remember that you and other Senators are up for reelection in 1986, and that the people of Indiana have long memories. They will remember whether you voted for a military weapon that did not work, while voting to cut Social Security, school lunch programs, and programs that help the poor and youth of Indiana get jobs. Thank you very much.

Senator QUAYLE. Thank you very much. Reverend Breimeier.

STATEMENT OF REV. JONATHAN BREIMEIER

Rev. BREIMEIER. Thank you, Senator.

My source of knowledge is the parish in which I serve, and the neighborhood in which I live are both poor, low income, mostly black. It is immediately southeast of the downtown area, and it is from that experience that I would address you, basically.

NEIGHBORS STRUGGLE TO EKE OUT AN EXISTENCE

My call from the church involves me daily in the struggles of our neighbors to eke out an existence. They come to our church when their attempts to juggle expenses for rent, food, utilities, medicine, and clothes, the basics of life, those attempts finally fail, and they need help to make ends meet.

They receive help from us, from Outreach ministries, Catholic charities, and so forth. On the one hand, this may be viewed as an encouraging example of sister helping sister, and brother helping brother. An equally accurate view would describe the situation as merely helping the person back onto a very bleak, hopeless, dismal treadmill of poverty. And I would echo what Miss Reis said from Outreach.

HOPE OF ANY ECONOMIC RECOVERY LOST

Any economic recovery, or hopes thereof is lost in our neighborhood. Unemployment, I would say in our neighborhood is very high. Probably between half and three-fourths of the men in our neighborhood are unemployed.

The dropout rate from school is alarming. Perhaps the worst again, as Miss Reis said, is underemployment, ranging from a young adult working 4 hours a week at McDonald's for minimum wage, to formerly full-time employees who have had hours cut, merely so that employers are relieved of the cost of benefits. The employment programs there are inadequate to the scale of unemployment in Evansville.

Furthermore, many of the people I hear from in our neighborhood have been down that road before, have been trained and invested their time and energy, only to find out that there was no job waiting for them when they got done.

In spite of the gloomy prospects in our neighborhood, I am continually astounded at the depth of faith, and the depth of the resiliency of life in the folks. They trust in God. However, and I say this without any rancor, malice or emotion, that they see the present administration and its policies as no friend at all—in fact, an enemy. The meager public support once offered has been slashed repeatedly. Consistently changing the legislation from D.C. means inconsistent administration on the local level, which further damages the lives of the poor.

And now the poor and elderly are being asked to take it on the chin yet again. We are opting for malnourished children, so that the Pentagon can have whatever it wants.

I can say with confidence, that my neighbors no more want a handout than your neighbors where you live. What we want is opportunity, and we want a reason for hope. But in the meantime, mothers have to feed their children.

If we feed and clothe and educate our children meagerly, they will become a meager generation. If we feed and educate them well, and offer them a future, they will become a generation of which we can be proud.

PREOCCUPATION WITH WEAPONRY CONDEMNED

Now speaking strictly as a Christian pastor, I feel I must condemn our preoccupation with weaponry while millions starve in Africa. We could prevent much of that starvation if we devoted a tenth of the energy and resolve to helping that situation, that we now devote to nuclear arms.

President Reagan's citation of the Gospel of Luke last week, to support further construction of weapons which could destroy utterly God's creation, especially in light of the suffering of people worldwide. It was obscene and blasphemous. Speaking as a father, tomorrow my daughter will be 6 months old. I want her to grow up and not be blown away in a nuclear holocaust. I also want her to grow up in a world where having enough to eat is not a question but a right, where people who can work do work, and where there is no threat of almost instant nuclear extinction. People should be the priority, not weapons. Thank you.

BUDGET DECISIONS WILL BE BASED ON PEOPLE'S BEST INTERESTS

Senator **Quayle**. Thank you very much. I thank the witnesses. I can only say that as we go down this budget road, that we will try to implement decisions that will be certainly balanced, and fair. Reverend, I have three children, too, and believe me, my decisions are going to be based on not only their generation's best interest but the people's best interests, because I am concerned about the people as each one of you are, and I think that the decisions that we have, they are important decisions.

And there may be honest disagreements on what these decisions will be, but I think a common dialog, one where we can sit down and have these kind of exchanges is certainly helpful. And you have the competition of ideas and the discussion of philosophies and principles, and that is what America is all about. And I certainly thank you for all of your input. I think that Mr. Ulrich, you are one of the few that has really put your finger on a real problem that we have, and one that is very much of a political problem, where you say not just defense, but you looked at that entitlement program and talked about cutting entitlements. It is a difficult problem, but you know, if you want to look at what the big items of the budget are, that is where it is. But unfortunately, we have not gotten in that direction, we should, and I appreciate you coming forth and saying that, because you are absolutely right.

That some of the programs, when you look in the discretionary accounts of where those cuts have come, they have come there, and it has been easy. Some of the cuts that they are now recommending are more in the so-called "middle income" type of programs, rather than just programs that we have had traditionally before. So these decisions are not going to be easy, but I can only tell these, and others, as we go around the State, and take these hearings, sincerely, and that is why I wanted to hear from those of you that wanted to testify.

It is important and I can assure you that we will try to take an equitable approach. I will feel that it is equitable; others will not. I hope that they will understand where I am coming from. And it will be ultimately what I perceive to be in the people's best interests, not only of this State but our country.

With that, the hearing is adjourned. Thank you.

[Whereupon, at 3:32 p.m., the hearing was adjourned.]

[The following statement was submitted for the record:]

STATEMENT OF JACK WADE, VANDERBURGH COUNTY EXTENSION AGENT, EVANSVILLE, IN

Senator:

It is very difficult to put on paper the alternatives you have when dealing with the National Budget. After visiting with many people, from different walks of life, I can identify a major problem. The National Debt. They all feel it is past time when we get out of debt. The sooner the better. As you know, our State Government has in its constitution that the state government stays out of debt. Let us hope that this never changes. If our State Government can accomplish this, then I'm sure our Federal Government can do the same. Each department should be given their budget and informed it's your duty to live within that budget and rewarded if savings are made. Likewise, cost overruns would not be permitted. If a freeze is put on the budget, then it should involve all, not just a few or some exceptions--all. If a percentage cut is made, it would apply to all. Let each department determine where and what to cut. Results must take place and soon.

Some appreciation (equipment, buidlings, land, etc.) is needed to give business an incentive to operate and maybe even grow. When you see land and equipment depreciate in some areas 40% or more, there is very little want or desire or ability to stay in business. Today Agriculture and Agribusiness are excellent examples.

Interest rates are too high if you need to borrow to stay in business and too low if your money is invested and providing you a living. The interest paid on our national debt is a tragedy. Something should be done to make the interest rates more stable. Changing the rate of interest on a weekly and sometimes daily time period is wrong. Some stability is needed. For example, a worker has to take a lower paying job and the interest on his home is variable and the rates go up as his pay is frozen or lowered. He will pay less taxes and could lose his house.

Taxes - A federal flat rate tax is an alternative with no exemptions. Another alternative is to use a federal sales tax. Then those that buy, pay. If they can afford a $25,000 new automobile or a $2,000 used automobile, they pay according to their buying ability.

Our Federal Government should pay as we go. If we have loaned money to someone, then let us collect the debt and interest. If they cannot pay, then collect the collateral. If all of the above mentioned are "no", then let us call it a grant and mark it off the books. If we owe someone, then let us pay them today.

Thank you for coming to Indiana and listening to your constituents. May God grant you and your committee the wisdom and strength to make decisions that will benefit the people of our great country.

ECONOMIC IMPACT OF THE FY 1986 BUDGET PROPOSALS ON THE STATE OF INDIANA

WEDNESDAY, FEBRUARY 13, 1985

U.S. Senate,
Committee on the Budget,
New Albany, IN.

The committee met at 9:15 a.m., in room 200 of the Federal Building, New Albany, IN, Hon. Dan Quayle presiding.

Present: Senator Quayle.

Staff present: John Palffy, chief economist; and Greg Zoeller, legislative assistant.

OPENING STATEMENT OF SENATOR QUAYLE

Senator Quayle. The hearing will come to order. We are here on our third day of hearings around the State. I've been in Indianapolis, Terre Haute, and Evansville. Yet to come are hearings in Richmond, Fort Wayne, South Bend, Lafayette, and Hammond.

Basically, this is to get input from the people of our State on how the suggested budget cuts are going to impact the people of Indiana, the public officials, the private officials. I think this is a good discourse in how representative democracy should work.

I have the honor and the privilege of serving 5.5 million in Indiana—the Senate is in recess right now, but we've been hard at work for 3 weeks in Washington, since the swearing in. We took a week off. With all the hard labor that's going on out there I thought I'd come back home and find out exactly how Hoosiers feel. We've been discussing the budget, budget cuts, and what the feeling is of the local community and the people.

FEDERAL GOVERNMENT GOING TO DO LESS

Hopefully, it will be mutually beneficial. I think as the discussion unfolds I can fairly well assure you that the Federal Government down the road is going to be doing less than what it has been in the past.

I don't think you're going to see radical changes. I do think you're going to see some substantive changes on the spending cuts. I think, by and large, people want to see the deficit reduced through spending cuts rather than tax increases.

What we need to do is to make sure that the transition and—there is a condition out there, that we're going to have to, perhaps, do more here and have less dependence on the Federal Government just because, as I've told a lot of people in the last few days, there's not a lot of revenues to share out there in Washington, there's a huge deficit that has to be shared.

And when you take it from that perspective, you've got to look across the board. You can't have any sacred cows on this thing. We're putting everything on the table, and that's why we're here today.

I've got a little clock there, if you can summarize your testimony in 5 minutes; if not, the red light will come on, and you will try to get your train of thought and conclude within a minute or so.

Since Mayor Orem is the guest, Mayor Hunter, I think we will let the visitors have the first shot at this. Welcome and—no flip of the coin; we're just going to be polite and diplomatic and let the visitors take the first shot, so Mayor Orem, if you would go ahead and proceed at your will.

STATEMENT OF HON. DALE L. OREM, MAYOR, JEFFERSONVILLE, IN

Mayor **Orem**. Thank you, Senator Quayle. It's a privilege to be here this morning, to be able to address something so significant as a deficit and the Federal budget.

CITIES NEED REVENUE SHARING

I'd like to quote some recent comments made in support of the administration's 1986 budget proposal: President Reagan has said, "The single most difficult word for a politician to utter is a simple, flat 'No,'" but regarding the proposed elimination of general revenue sharing, the Federal tax funding that is returned to our local governments and allows us to purchase and maintain police, fire, sanitation vehicles, to improve our treatment of wastewater, virtually pay the city's bills without incurring drastic increases in our already high taxes, I must, however, Mr. Reagan, submit a respectful, but adamant, "No." As cities, we need those revenues.

I have been mayor of Jeffersonville for a little over a year, a city of about 22,000 people, so we're not a significant dent in America's population base, but we've reviewed our revenue-sharing expenditure since 1980.

We've not gotten into a position of paying salaries and those types of things with those dollars. We've tried to buy fire trucks, police cars, garbage packers, those hard-nail things that you can see, that help provide services within our city. We, however, have a tax rate of about $15.74 per $100 for this coming year. That's an extremely high tax rate.

Without our $300,000 of Federal revenue sharing, we're going to be extremely tight, and some things will have to fall, some of our city services, because I personally feel that our people are at the maximum as far as the property tax level that we can pay. So we're going to have to do other things.

We keep our streets clean when it snows; we're not going to be able to do that any longer. When you start spending $20,000, $25,000 to $30,000 a year for salt—that doesn't include the addendum, such as the overtime pay and those types of things. Those kind of services are going to have to be cut if we cannot generate enough revenue.

UDAG FUNDING ALLOWS FOR MORE INVESTMENTS

We're also in a position in Jeffersonville to use UDAG's, community improvement grants, those type of funding. This particular type of funding. This particular type of funding causes additional dollars to be spent.

I would like to say that perhaps—rather than an increase in Federal taxes, or some other major thing that can cause growth—I believe that it's the opportunity for the private people to invest in America that keeps us on this road of recovery and causes this GNP to rise.

These are the basic things that cause the people to invest, cause more jobs, lower taxes, raise Federal income. Everything revolves around people's ability to take a risk, and we would like to see the Federal Government continue to allow us to have that risk-taking factor.

When you think of UDAG's, CIP's, and the things which allow small businesses to make these investments in America's future, cause further rippling effects which, again, raises the Federal revenues, and this is what we're all after.

According to some Gallup polls and those type of things, people have a respect for local government's ability to spend its own money. What we're asking, I guess, is for you to take the money and give it back to us, and allow us to make those investments in our local economy where we think that it will be best suited, and to keep those things, because they're really not that large a portion of the Federal budget, and certainly not that much of a cause for a deficit of $222 billion—I almost choke when I get to figures that high——

Senator **Quayle**. So do I.

Mayor **Orem** [continuing]. But we have to keep our house in order. We have to go on budgets that balance, and I think that we're at least going in the right direction, you and your counterparts, in trying to get us back to a budget that we can live with and operate with, and become not great hand-out people around America.

FREEZE ALL PROGRAMS

I personally would like to see us freeze every program that you have—freeze defense, freeze revenue sharing, freeze whatever you have to do; and in freezing this, you automatically cause a non-rippling effect in the economy, you make us tighten up our belts. You make the Defense Department, which is asking for a 12.7-percent increase, stop buying coffee pots that cost $7,600.

Now, I know that's tough to do, but they're going to have to do it—and $1,000 plastic caps for captain's chairs in a B-52; a $600 toilet lid—it just goes on and on, and I know that's the most difficult thing.

President Reagan said, in the first 3 months that he was elected in 1980, "We're going to stop the waste." I've heard very little about it since the first 3 months in 1980.

And I think that we need to get our own house in order, and we need to get the Defense Department to make proper purchases; and when that happens, they're going to save $40 billion themselves to be able to use for the MX missile and the B-1 bomber, and star wars, or whatever they want to do.

I would just like to say, "Freeze it." Let us do the best that we can with what we have, and we'll have to tighten our own belts.

I'm against Amtrak—basically—I guess it's because I don't use it, but it's rather evident that very few people do. So I would say, "Let's not everyone pay for the benefits of John Madden to go to football games." That's my attitude.

You know, we talk about the loans for students, and those types of things, and I don't want to take away moneys from students who actually need them; but, there is a need of a policing of our own skirts.

You know, some students buy new cars with that money—and some don't, but I think we really need to try to zero in on the uses of those moneys and see where they are actually being spent. So I would say that even a freeze in that area would not necessarily hurt the student; it would keep him going.

Really, I think this is a simple solution to raise revenue, in order to reduce the deficit, I don't see that as really a long-term solution. I think if you allow the American people to invest and to continue our growth, you will see those revenues rise.

I think I've about shot my mouth off here about all that you need to hear. I'd just like to thank you, really, for giving us this opportunity to discuss these things with you, and hope that you will carry them back, if you feel they have any weight. But I think we need to get our own house in order. I think that's the most important issue.

Our biggest issue is the defense and we do need to have a strong America—I'm the first to agree to that, but I think we must force them to get their own house in order.

Thank you so much for giving me this time this morning.

Senator QUAYLE. Thank you very much, Mayor Orem.

[The prepared statement of Mayor Orem follows:]

Senator Quayle Federal Budget Hearing

Testimony for Mayor Dale L. Orem
Jeffersonville, Indiana

In recent comments made in support of the administration's 1986 budget proposal, President Reagan has said that "the single most difficult word for a politician to utter is a simple, flat "No"." But regarding the proposed elimination of general revenue sharing, the federal tax funding that is returned to our local governments and that allows us to purchase and maintain police, fire, and sanitation vehicles, to improve our treatment of wastewater, to virtually pay the city's bills without incurring drastic increases in our already high property taxes.... I must, Mr. Reagan, submit a respectful, but adament, "No".

I have been mayor of the city of Jeffersonville, Indiana, for just over a year now. We are a third class city in Clark County located on the Ohio River, just across from Louisville, Kentucky, with a population of 22,480. (1984 Census). For this testimony, I have reviewed Jeffersonville's use of general revenue sharing funds since the fiscal year of 1980, and have found those funds used to purchase items and improvements that benefit the entire community.[1] They include police patrol cars, fire department equipment and vehicles, improvements and extensions of sewer lines and our wastewater treatment plant, a trash packer for the sanitation department, and parks and recreation needs. Without general revenue sharing funds, local property taxes which for 1985 stand at $15.74[2] per $100 assessed of real property, would have to be increased considerably or, local services such as fire and police protection and trash pick up, would have to be cut back. Neither solution will be popular with those whose opinions that the Honorable Senator Quayle and I represent.

---

1 A detailed report of Jeffersonville's use of general revenue sharing funds since 1980 is attached to this testimony.

2 According to Jeffersonville Township Assessor for inside city limits, and payable in 1986.

Another vital mechanism that government has used to return federal tax dollars to local communities is through the Department of Housing and Urban Renewal in the form of community development grants and urban development action grants, or UDAG's as they are commonly known. The proposed budget cut for this department is 47% for 1986, with UDAG's gradually being eliminated altogether. It is difficult to understand the elimination of UDAG's, as their use aids both the community and private enterprize. Cities make application for UDAG on behalf of the private investor's project. The monies are granted to the city, who then loans it to the project at a reduced rate or on deferred payments. Benefits are seen in new jobs created by the project, the development of blighted urban areas, including as increased tax base, and as the monies are paid back, the city can then lend it out again for other worthwhile projects. Cities must compete on a nationwide basis for these grants and the qualifying criteria assure that the project stimulates investment in areas of below average income, and provides jobs for the community's unemployed or under-employed and therefore cause the entire Federal Revenues to rise.

Although Jeffersonville has not made use of UDAG's yet, (we became eligible in late 1983), there have been several inquiries and we had hoped to be able to benefit from this program in the near future. Some aspects of our Riverfront Development project would be eligible, as would our oldest and somewhat ailing industry, Jeffboat. In short, I would urge that careful consideration be given before eliminating those programs such as community block grants and UDAG's that contribute to making economic recovery a reality for urban areas.

The budget proposed for 1986 seems to have been designed with the attitude that federal tax revenue should no longer be entrusted to local officials to use for their communities as needed. That is a point that I must disagree with.

According to a Gallup poll conducted in 1984 for the Advisory Commission on Intergovernmental Affairs, 35% of the American public believe that local governments make the best use of tax dollars, 27% believe that state governments are wisest, and only 24% indicated a preference for Federal government spending. The survey reported that, "Increasing public support for states and local governments may also reflect public perceptions that states and local governments are doing far better jobs of getting their fiscal houses in order than has the national government."

Fiscal programs such as general revenue sharing, community development block grants, community services block grants, and UDAG's are helping cities to keep their heads above water. They help by training and employing our unemployed, by allowing us to maintain our aging infrastructures and by attracting and encouraging new businesses into our economy. They are vital to maintaining fiscally healthy cities and towns. Granted, the federal deficit is a frightening problem, I do not suggest that we continue to allow it to escalate. But, by cutting so drastically and eliminating funds to our communities, we would be trading one problem, the federal deficit, for one equally as serious, and more difficult to solve, the economic failure of our nation's cities and towns.

I believe there exists an answer to the problem of reducing the federal deficit without crippling the fragile economic balance that our local governments depend on to survive. I believe that answer can be reached through a freeze on the spending in most departments, including those this testimcny has supported, and by tax reform, to close the loopholes once and for all.

If the federal deficit for 1985 is expected to be $222.2 billion, and with President Reagan's proposal will drop to $180.0 billion in 1986, a freeze on Defense spending alone would see the deficit slashed an additional $30 billion.[3] Although the military security of America is most important, and military readiness should by no means be sacrificed, waste must be eliminated.

---

[3] The Indiana Times, "Reagan Asks Congress to Show Political Courage", p. A-1, February 4, 1985.

It is difficult to support an increase in defense spending of $30 billion, a 12.7% increase, when the media has highlighted such wastes as $7,600 coffee pots, $1,000 plastic caps, and $600 toilet lids. It appears that our tax dollars are being spent by the Pentagon with absolutely no regard to reasonable cost. I don't know any family budgets that can operate in a like manner, and I certainly would not allow my department heads to spend tax dollars so irresponsibly. Government spending is ultimately accountable to the American public who pays these bills and must be free of such vulgar excesses in order to make budget increase requests credible.

When President Reagan ran for his first term in 1980, he stood on a platform of decreasing government spending and waste, of making the federal government smaller and returning more power to the state and local governments. I believed in that philosophy then and still do today. And if increases in military spending are necessary for our country's security then they should be allowed, but first, the Pentagon should clean out those excesses and trim the fat to prove a legitimate need.

There are other areas in which President Reagan has proposed cuts which appear to me to be called for. For instance, I don't think there is any reason to continue to subsidize Amtrak, and the guaranteed loan program for college students is often misused for the purchase of new cars and other items not associated with higher education, so the maximum family income clause of $32,500 seems reasonable. The 5% pay cut slated for federal employees should not be impossible for those employees to absorb, but yet will be a nice showing of "good faith" in the President's efforts to reduce the deficit, as will the 10% reduction in spending by Congress.

I tend to agree with President Reagan that a general federal tax increase is not called for at this time. I believe his landslide victory last year was a mandate for no general increase. Although it would seem to be a simple solution to raise revenue in order to reduce the deficit, I don't see that as a long-term solution. It does nothing towards reducing federal spending, and may, in fact, encourage increases.

---

[4] The Indiana Times, "President Takes Full Credit for Economic Recovery", p. A-1, February 5, 1985

Instead, I believe it is time for a total tax reform, reducing the many loopholes that are so popular with upper-class, middle upper-class, and corporations. Once the tax rates are clearly fair to all, an outrage over a 1% general increase would not be likely and could raise billions of dollars to reduce the federal deficit.[5]

I know that the upper classes and many corporations are made up of the same folks who help elect all of us by making contributions to our political campaigns, and that any threat that is made toward their favorite loophole will not be highly regarded by them, but the distribution of the burden needs to be equitable. The brave congressional representatives and senators who will supoort such a measure may lose some votes from the upper class, but he could gain more from the middle and lower-class voters who do not have access to the use of favorable deductions.

It is encouraging to note that in the National League of Cities Annual Fiscal Conditions Survey and Report, 94% of the survey respondents said the current federal tax system is too complicated, and 70% said there are too many deductions.[6] Oil and gas shelters were the least favorite among the deductions, with 84% of the respondents suggesting reducing their value.[7]

The time is right for tax reform, the majority of the American public are in favor of it as they become increasingly aware that the deductions allowed in the current system do not benefit the average worker and family. I hope Congress will heed that popular call and work to make the system equitable to all.

In closing, I would like to thank Senator Quayle for this opportunity to present testimony. I hope that I have adequately represented the feelings of municiple leaders in our area, and the feelings of the voters that we both serve.

---

5 The Indianapolis Star, "Reform and Reduction", February 6, 1985, p. A-11.

6 Indiana Association of Cities and Towns Bulletin, January, 1985

7 Ibid

Senator QUAYLE. Now, our host this morning, Mayor Hunter.

STATEMENT OF HON. CHARLES G. HUNTER, MAYOR, NEW ALBANY, IN

Mayor HUNTER. Thank you very much, Senator Quayle.

On behalf of all our citizens, of course, we welcome the Senator to New Albany. We are most appreciative that you would take this time to allow our community to have some input into these problems.

Today I will speak on several Federal programs that I, as mayor, have had some involvement in and, therefore, feel qualified to speak on with some knowledge and understanding.

CDBG FUNDS VALUABLE TO CITY

Just for a little background, of course, New Albany, as you probably know, was founded in 1813 and being an old river town, we are faced with some inner-city blight within the older sections of our community. And along that line, I would say that the community development block grant funds that have been made available to our community have been valuable to our city by providing physical improvements of facilities. Coupled with these improvements, the rehabilitation and demolition of substandard housing has had a very positive effect on the upgrading and salvation of marginal residential areas within our city.

We are now presently involved in some three of these projects, and I would strongly urge that the funds remain available to complete the total scope of work planned for these areas. Again, they have had a very positive effect within the city of New Albany.

SUMMER WORK PROGRAM SHOULD BE FUNDED

Also, I think it is imperative that some type of summer work program be funded to assist the young men and women of our community who would otherwise be unemployable. We have had much success in dealing in these programs over the last year, and we have been able to provide meaningful and educational projects for these young men and women.

At the end of last summer, these people not only had a few dollars in their pockets, but more importantly, they were exposed to excellent supervision, they learned to develop pride for their work, and many of the projects completed under this program are now permanent fixtures of our community and they remain a tribute to this program.

Revenue-sharing funds are used in New Albany, as in Jeffersonville and many other cities, to supplement the general revenues required to provide the basic and expected services to our citizens. Unfortunately, we have become dependent upon these funds.

Now, I don't feel that in the long run it is the responsibility of the Federal Government to receive and redistribute those dollars required of the cities to meet their operational expenses, but since this is an established process, I think the Federal Government must allow cities the time required to locally raise those revenues that are now presently in jeopardy.

MAKE FUNDS AVAILABLE FOR PROGRAMS ALREADY STARTED

I might say, as mayor of New Albany, and of course, I'm sure, as mayors across the country, we all make an extensive effort to assure that the funds available through State, Federal, and local sources are being spent prudently and to have a positive effect on our city; but in consideration of any changes in Federal funding, I feel that two points must be made:

I think, one, no matter what the cuts in Federal funding that are now being considered, it is of the utmost importance that funds for those programs that are in the planning or construction stage must be made available until those projects are completed.

I think, two, if there are to be across-the-board cuts in Federal funds coming to our community, I think the money not cut from these programs should then come to our communities with no strings attached, as I see that I think our local government has the capacity and expertise to make decisions of how we can best use what funds are available to serve our community.

Again, I thank you very much for inviting us here today and, again, welcome to our fair city.

EFFICIENCY AND MORE COMPETITION FOR DEFENSE

Senator **Quayle**. Thank you very much for your testimony, and let me just make a couple of observations. I think that what both of you are saying is, "OK, if we're going to have to do it, let's make it across the board,"—you've both referred to it as "the freeze."

I can assure you, Mayor Orem, in the defense community particularly, as I sit on that Armed Services Committee and as the chairman of the new Procurement Subcommittee—I see that we're going to demand efficiency, that we're going to demand more competition, and I think that we're going to get it.

I think that these things have been uncovered, and as a result there have been some problems that have been corrected. The unfortunate aspect, and I think that defense is going to have to face this as well as nondefense, is that on the scheduled increases that we have out there in the future, we simply aren't going to be able to go along the path that we originally planned; and, therefore, some of us in the Senate—particularly those on the Armed Services Committee—knowing that the ax is going to fall on defense as well as nondefense, are trying to come up with some alternatives.

I think that what we're going to probably have to do in the area of defense is not unlike what we're going to have to do in the area of nondefense. We'll have to say, "OK, we can only afford certain things and, therefore, what are you going to cut?"

In defense, I think where you're looking at a real reduction that's going to take place is probably in the force structure. I think we're going to have to go to the American people and we're going to have to go to our allies and say, "We simply are not going to be able to pay for the anticipated amount of people in uniform and civilians as we had originally anticipated."

I'm not looking at the combat units, the 82d or some of the ones that are terribly effective; I'm looking at noncombat, and I'm looking at probably about 90 percent of the levels, and you're going to save billions of dollars. These are going to be real savings. It's not going to be through the inefficiencies from which the savings will come, but we're going to have to do that in defense, and we're also going to have to do it in nondefense as well.

NAMING PROGRAMS TO CUT CAN BE DIFFICULT

I wondered, as mayors, is there any one program now—maybe two or three, something you wanted to give me that presently the Federal Government funds that you feel that you can do without? Is there any list out there of programs that you might be willing to offer up on the auction block, so to speak?

Mayor Hunter, do you want to take a stab at this?

Mayor **HUNTER**. Well, I hate to be the first one to chop one. I think, in response to that, as I say, I tried to limit my testimony, again, into those areas that I have the most understanding.

There are many programs throughout the city that are funded through our senior citizens and allied services; some are services programs that do a tremendously good job for the city of New Albany, but I am really not qualified to say, "Are those dollars being spent efficiently and effectively?"

Of the programs that I have mentioned, they are very needed programs, and I certainly wouldn't want to see any cuts in these areas.

REVENUE SHARING MOST IMPORTANT PROGRAM

Senator **QUAYLE**. Let me just ask the reverse of that and then I will ask Mayor Orem to comment. What's the most important program to you from the Federal Goverment? Is it revenue sharing?

Mayor **HUNTER**. Well, of course, if we go back a little, it has become a very important program for the mere fact that it has become a part of the operational funds that cities need.

You know, some years ago when it was first passed—I happened to be city engineer at that time—it came with some restrictions for capital improvements, which I thought was a very good way to send money to communities and not allow them to put it into the salary structure or into the daily operational funds.

Of course, I guess mayors hammered on everybody for years about loosening up the controls, but again, it basically is used in New Albany at this time as a supplement to our sanitation department, which we do not have funds to cover the total budget. So, basically, revenue sharing, as it now exists in New Albany, is a direct supplement to our garbage pickup, so it is very important; although, as I said, I think that the time may come that cities should get their own house in order, pay those fees that are required for the basic city services, and then I think revenue sharing could become, in my estimation, much better, as it was in the past, for those capital improvements that are needed in the city.

Senator **QUAYLE**. Mayor Orem, do you have any programs you want to put on the auction block?

Mayor **OREM**. No; I really don't.

Senator **QUAYLE**. I was afraid of that.

Mayor **OREM**. The reason I say that is, there are so many parts of the Federal programs that do not touch each of us. I'm sure Mayor Hunter's city may use some of your programs that we don't use.

We may use some that New Albany doesn't use, so I'm not so familiar with all of them.

The ones that I'm most familiar with are revenue sharing, and I think that's a very, very important part of the Federal Government's programs back to the cities and towns. Without it, we'd have a very difficult time making it right now. So it is an extremely important part of our budgetary system.

PROGRAMS BEING TIED TO GROWTH

At the same time, we're trying to tie whatever programs that the Federal Government has available to growth, we're trying to use those programs, such as the UDAG, the community improvement grants, those things that you can physically see and touch that cause growth, that cause the American people to become entrepreneurs, to get into the marketplace and to further invest so that we can get our own house in order and have the future of our tax base in our own hands, to be able to control that.

So growth is what we're looking for. You, President Reagan, and every other Senator and Representative is looking for a growing gross national product. Without it, your revenues have to fall; we all become in a much tighter situation. So we want to produce those things that cause growth, and so those are the important things to us.

Senator **Quayle**. I certainly agree with you, that economic growth is our goal. Through economic growth, you have jobs, you have opportunities. Without the economic growth, you're going to have high unemployment, distress, and dislocation.

Through economic growth, you're going to have hope. If you don't have that, you're going to have despair. The key is in how we're going to get that economic growth. And one of the things I believe, to continue that economic growth, we've got to have that deficit begin to come down.

When you look at that deficit, you're looking at a reduction in spending and, therefore, reduction in spending is going to be across the board; it just depends on how far and how deep we're going to go.

LOCAL RESPONSIBILITIES SHOULD BE PAID FROM LOCAL RESOURCES

Let me just ask one final question of both of you. I'm going to sort of put on my devil's advocate hat and just throw this up as a friendly devil in advocating or looking at a philosophical point of view.

What do you say to people that say, as far as revenue sharing—let me preface this, the partnership that we have with the Federal Government, State and local, is going to continue. I think one of the best things that we have done is the Job Training Partnership Act, and I know both of you are involved in that, because what we have done is taken a Federal responsibility of employment training and decentralized it. We've created a PIC council that gets the private sector involved. The private sector involved contributes a vast amount of voluntary time and energy and, as a result, we're spending about $3.2 billion on employment and training programs in 1985, where in 1978 and 1979, we were spending $10 billion.

So we are saving the taxpayers almost $7 billion—and I dare say that it's a much better program than CETA. I think that that's a fairly acknowledged effect, so we can, in fact, do that.

The philosophical argument, particularly when you look at the revenue sharing—it goes like this: They say:

> Well, it really is not the responsibility of the Federal Government, from a philosophical point of view, to pay monies for the police department or the sanitation department, of a municipality. Those are clearly local responsibilities tbat ought to be paid for by local resources.

How do you answer that type of statement? You've heard that before, I'm sure. What is your response to that?

ELIMINATE REVENUE SHARING THROUGH ECONOMIC GROWTH

Mayor **Orem**. Well, basically, you're absolutely right. My response to that is it's an extremely difficult situation to get into. If we were to raise the $300,000 in Jeffersonville that we received last year from Federal revenue sharing, we would have a 10 percent increase in our tax base, which is already at $15.74.

I have people in Jeffersonville and North Haven Subdivision paying $200 a month taxes on houses. Now, if I go and jack them another 10 percent, we're going to cause housing starts to fall. We're going to cause a lot of things to happen that put you in a very noncompetitive situation.

And that's why, in our city, I'm doing everything I can—I've become a salesman, not a mayor—and I'm trying to sell my Jeffersonville to anybody that will listen, that has an idea to move, that can employ, that can build, and I think we're successful at it.

We're not caretakers any longer; we've got to get in the active stream of selling our product. We've got to get out of this mode that Chas and I are caretakers caring for tax dollars. We don't. We've got to sell our communities; we've got to sell people on growth and give them an attitude that in America we can succeed. We don't have to sit back, we can go ahead.

So we're going to try to make up those tax dollars and make it easier for the Federal Government to do away with revenue sharing, because we don't want to be dependent upon you either. We would like to see us stand on our own two feet—though without you, where would New York City be? It would be way out under the Verasano Bridge because it would be down the tubes.

Without you, where would Detroit and Chicago be? Where would these major cities be? It would be the major blemish of America if we let our cities and our towns become decrepit, and that's what we don't want to do because then you've got a worse problem than you have with the Federal Government deficit.

Senator **Quayle**. Mayor Hunter, do you want to add anything to that?

TIME FOR CITIES TO PAY FOR BASIC CITY SERVICES

Mayor **Hunter**. He covered it quite well. Again, as we mention in our statement, I think it is time for cities to wean themselves away from revenue sharing, again, to pay for those basic city services.

As I say, it happened over a period of time; originally, revenue sharing was not meant for that purpose. But that's not where we are today and, as Dale has said, it would mean a tremendous increase in property taxes—quite honestly, an increase that, by law, we could not make under the State legislature's 5 percent ceiling on levy, so it does create quite a problem if somebody were to come in and just say that this is no longer available.

It is so important, again, that our cities become viable, the New Yorks, the Detroits, as well as the New Albanys and Jeffersonvilles. We have to provide certain services to our citizens, and we have to maintain a certain quality of life that's inducive to bring new people, new industries to our area, and growth is the answer.

I think that Southern Indiana has tremendous potential, but we have to be very cautious because it's very competitive, and we must keep our local taxes, our local services in line to be able to induce industries to come to Indiana and it's—again, a tough, competitive game, and we need all the help we can get.

Senator **Quayle**. I thank both of you for your contribution. We look forward to working with you, and to keep the dialog going, because this is a beginning, and there are going to be some very substantive decisions that we are going to be making in the next—probably 6 or 7 months.

I think that this first year of the second administration of the Reagan administration is going to be the most critical one. That's why I'm holding these hearings, and I appreciate and value your input. We'll keep talking and we'll keep the partnership going.

Mayor **Orem**. Thank you allowing us to speak today.

Mayor **Hunter**. Thank you, Senator Quayle.

Senator **Quayle**. Thank you.

Next will be Gary Tyler, Charles Teeple, Dale Gettelfinger, and Ted Solso. We'll put all four of you there.

First on my list is Mr. Gary Tyler, executive vice president of the Clark County Chamber of Commerce.

Mr. **Tyler**. Good morning, Senator.

Senator **Quayle**. Good morning. Go ahead and proceed. The green light is yours—just like the Indianapolis 500—go. There's no yellow light, though. We just go from green to red, and that means stop.

STATEMENT OF GARY F. TYLER, EXECUTIVE VICE PRESIDENT, CLARK COUNTY CHAMBER OF COMMERCE

Mr. **Tyler**. My name is Gary Tyler. I am employed as the executive vice president of the Clark County Chamber of Commerce, headquartered in Jeffersonville, IN. On bebalf of the business and professional sectors of our area community, I welcome this opportunity to present our general views on the fiscal year 1986 budget and our concerns of the projected deficits.

The proposed fiscal year 1986 budget of $973.7 billion would freeze, reduce, or eliminate many domestic programs. Defense spending would increase by $30 billion. The proposed budget would reflect a 1.5-percent increase over the fiscal year 1985 budget, representing additional payment of interest on the national debt.

BUSINESS PEOPLE HAVE MIXED FEELING TOWARD PRESIDENT'S BUDGET

The general feeling, Senator, of the business people here in southern Indiana toward the President's budget proposal would be mixed, I would consider. However, it must be pointed out that an across-the-board freeze in all programs, including defense, would receive greater support. At least, these are the indications that I've had in discussions with our people.

A freeze should be comprehensive and equitable. No program would be held sacred. Spending restraint would have to occur with all recipients and programs sharing equitably the burden of reduced funding. Administrators would be forced to make tough decisions to prioritize programs and determine where the funds are needed most.

The President's budget proposal would eliminate several programs that impact every community, such as revenue sharing, transportation, Small Business Administration, community development grants, and service grants.

We believe that there are some overlapping programs duplicating services by some of these Federal agencies. This waste should be eliminated by a freeze.

Most communities here locally would have great difficulty in maintaining essential services with the total elimination of programs such as revenue sharing, transportation and community development. A freeze and gradual phaseout of these programs would allow communities to make adjustments in their programs to minimize the impact over a period of time.

BUSINESS COMMUNITY CONCERNED ABOUT FEDERAL DEFICIT

Our local business community is concerned about the Federal deficit. Approximately 15 percent of the budget must go to payment of interest on the national debt. This represents tax dollars that cannot be reclaimed in programs benefiting the citizens. If unchecked, that amount of interest on the debt could reach 25 percent-plus in future budgets.

Uncontrolled deficit spending is the leading problem facing our Nation, in our opinion. Additional taxation has been proposed to help solve the deficit problem. We firmly disagree with this proposal. Tax increases in the business community alone would only hamper the economic recovery, and the favorable impact of expansions, and also, by the way, the formation of new jobs would be greatly curtailed by such action.

We believe that the across-the-board freeze represents the best approach in taking the first step of reducing and eliminating the deficit. This action, along with implementing the recommendations for cutting waste in the Grace Commission's report, would certainly be welcomed by all citizens. Through revised Federal spending practices and procedural reforms, we can achieve our goal of economic growth through fiscal responsibility, in our opinion.

Thank you, Senator.

Senator QUAYLE. Thank you very much, Mr. Tyler.

Next is Mr. Charles Teeple, the vice president of communications of Humana, Inc. Mr. Teeple.

STATEMENT OF CHARLES TEEPLE, VICE PRESIDENT OF COMMUNICATIONS, HUMANA, INC., LOUISVILLE, KY

Mr. **Teeple**. Thank you, Senator Quayle, for this opportunity to express our views on the budget. My name is Charles Teeple, a resident of Jeffersonville. I am vice president of communications for Humana, Inc., whose headquarters are located just across the river in Louisville.

Humana is a diversified health services company, with operations in 22 States and three foreign countries. We have 42,000 employees; we own 88 hospitals; we offer a Humana Care Plus health insurance plan to more than 127,000 members; and we operate 84 Humana MedFirst primary medical care centers in 13 States.

In Indiana, we own Humana Women's Hospital in Indianapolis, and we plan soon to offer our Humana Care Plus insurance in this State.

More than 420 Indiana residents work at our corporate office in Louisville or at one of our four Louisville hospitals. In addition, another 290 employees are at the Indianapolis hospital.

I come before you today to comment on the proposed Federal budget for fiscal year 1986, offered last week by President Reagan, and specifically on the budget proposals affecting the Medicare Program.

AMAZED AT SIZE AND SCOPE OF PROPOSED MEDICARE CUTS

The administration recommends cuts in Medicare totaling near $20 billion over 3 years as part of an overall plan to reduce the Federal deficit.

For fiscal year 1986, the administration would freeze Medicare DRG payments to hospitals for 1 year at current levels. They also would freeze Medicare fees paid to physicians at current levels for 1 year. Reductions would be made in Medicare payments to teaching hospitals for medical education, and the part B premiums paid by Medicare beneficiaries for physician care would be increased.

We strongly support the need for bold action on the Federal deficit, but we are amazed at the size and scope of these proposed cuts in Medicare for two reasons:

One. Medicare does not contribute 1 cent to the Federal deficit because it is a trust fund program, yet Medicare has been singled out for one of the largest program cuts.

Two. Cuts in Medicare payments to hospitals won't reduce interest on the national debt since the savings will stay in the Medicare trust fund, yet hospitals would absorb 60 percent of the proposed Medicare cuts in fiscal year 1986.

FOCUS ON HOSPITALS TO ABSORB MEDICARE CUTS SURPRISING

The focus on hospitals to absorb the bulk of Medicare cuts is even more surprising in light of the fact that the rate of hospital cost increases has dropped nearly 70 percent in the last 2 years, and much of the credit for this drop goes to the new system of prospective payment for Medicare hospital services that Congress passed in 1983.

Medicare spending for hospital services in fiscal year 1984 ran 6 percent below budget projections, and it is running well below projections this fiscal year as well, because of shorter lengths of stay and a lower demand for hospital services.

If these trends continue, as they are expected to, Congress could do nothing this year and still achieve its spending targets for Medicare next year.

We ask two actions from you in dealing with the Medicare portion of the administration's proposed budget: First, the Medicare Program should not be singled out for the largest cuts in the budget. If Medicare reductions must be made, they should be in proportion to spending cuts in other budget areas, including defense.

Second, within the Medicare budget, hospitals should not have to bear 60 percent of the proposed budget cuts. During the past 4 years, hospitals have absorbed over $10 billion in Medicare reductions.

MEDICARE CUTS SHOULD BE SPREAD PROPORTIONATELY

The inevitable result of more draconian cuts will eventually be a reduction in services to Medicare patients. Any cuts within the Medicare budget should be spread proportionately among hospitals, physicians, and beneficiaries in the form of more cost sharing.

I repeat: Humana strongly supports decisive action this year to curb the growth of Federal budget deficits, but the action Congress takes to do this should be fair. It should be applied to all parts of the budget equally, and it should be aimed at those programs that contribute directly to the deficit and the interest on the national debt.

Thank you.

Senator QUAYLE. Mr. Dale Gettelfinger who is the director of the Monroe Shine & Co. here in New Albany.

STATEMENT OF DALE GETTELFINGER, DIRECTOR, MONROE SHINE & CO., INC.

Mr. GETTELFINGER. Thank you, Senator. Good morning. My name is Dale Gettelfinger, and I am a CPA.

Your invitation asked that I present the views of my community and professional colleagues. I speak only for myself. However, being a CPA and a director of a certified public accounting firm, I am consistently influenced by the good judgment and common sense of our firm's clients and business and professional associates.

Business people do not pay CPA's to tell them what they already know—and I'm sure you've not invited me here to do the same. However, from time to time, business people do appreicate being reminded of some things they may have taken for granted.

Occasionally, one will hear someone say, "The money doesn't matter; it is the principle involved." Experienced business people generally regard this a declaration that only the money matters. I suggest you keep this in mind when proponents argue a particular tax principle—the money involved is really all that does matter.

People take risks, succeed or fail, and eventually pay taxes. Corporations do not. The family-owned business provides the clearest examples. Please recall your days as the leader of your family's business when proponents argue for increased business taxes.

Similarly, corporations do not respond to the special needs of the less fortunate among us—concerned and caring people do. The leaders of a business in Paoli—your wife's hometown—have a program of donating a specific percentage of net income to children's organizations that cannot obtain funds from government sources. Please don't let our government stand in these people's way.

TAX SYSTEM LACKS PREDICTABILITY

Being a CPA, I do have some specific comments about our Tax Code and the way we collect revenues. The tax implications of a business transaction are not predictable with a high degree of confidence. This obstructs business expansion and unnecessarily increases risks for those who seek to start a business.

Each time the Congress reforms or simplifies our tax system, we get just the opposite. Leaving the existing tax system as it is surely will not make matters worse, and might allow the Treasury Department, Internal Revenue Service, taxpayers and their advisors to bring some predictability back to our tax system. Besides, the jokes about tax accountants relief acts are no longer funny.

All the recent Federal legislation is dramatically increasing the complexity and cost of compliance with our tax laws. The complexity leads to a lack of confidence in our tax system and the cost of compliance promotes the evasion of taxes rightfully due.

The best example of this is the recent legislation and Treasury interpretations concerning recordkeeping requirements for deducting automobile business expenses. The proposed rules are so complex that, on first examination, they seem a practical joke that did not turn out funny. However, a closer examination reveals the rules for what they are—a penalty, a punishment of those who must have an automobile to conduct their business.

I find stories about how the Russians evade their bureaucracy amusing. If the Congress keeps insisting on rules like those for business automobiles, it will not take us long to catch up with the Russians when it comes to evading bureaucrats.

RECENT LEGISLATION HAS INCREASED WORKLOAD OF TAXPAYERS

Recent legislation has dramatically increased the workload of taxpayers and their professional advisors. One change is the provision of the Subchapter S Corporation Revision Act of 1982 that requires many corporations to use a calendar year for tax purposes as opposed to their more natural fiscal year.

The family business I grew up in is a popcorn processing business. You pick popcorn in the fall and, therefore, there is some sense in a September business yearend. A December 31 yearend makes no sense. It confuses the business owners and causes extra work for their accountants at the very busiest time of the year. This type of legislation does not result in simplification, nor does it encourage taxpayer compliance.

Internal Revenue Service data for 1982 income tax returns shows that approximately 4.5 million people filed income tax returns, reporting an adjusted gross income exceeding $50,000. These taxpayers paid just about $100 billion of income taxes. These 5.8 percent of all individual taxpayers paid 35.8 percent of all individual income taxes. In addition, they paid their full share of Social Security, unemployment, and excise taxes.

The Congress cannot add to the tax burden these few people now bear without reducing their incentives to take the business risks our society rewards with a higher income.

I might suggest the tax principle of fairness here—is it fair for 5 percent of the taxpayers to carry 35 percent of the tax load? But remember, talk of principle is only camouflage. It is the money that matters, and these particular taxpayers are paying too much of their money to the Federal Government.

I know this doesn't have to do with budget cuts, but the other side of budgets is raising the money, so I thank you for letting me speak my thoughts.

Senator QUAYLE. Thank you very much, Mr. Gettelfinger.

[The prepared statement of Mr. Gettelfinger follows:]

MONROE SHINE & CO., INC.
Certified Public Accountants
EAST MARKET AT THIRD STREET
P. O. BOX 1407
NEW ALBANY, INDIANA 47150
PHONE 812-945-2311

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
INDIANA CPA SOCIETY
KENTUCKY SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AICPA DIVISION OF FIRMS • CPA ASSOCIATES
Offices
BEDFORD · NEW ALBANY
LOUISVILLE, KENTUCKY

February 11, 1985

The Honorable Dan Quayle
United States Senate
Washington, D.C. 20510

Dear Senator Quayle:

Thank you for inviting me to testify before the Senate Budget Committee Field Hearings.

Your invitation asks I present the views of my community and professional colleagues. I speak only for myself. However, being a certified public accountant and a director of one of the largest certified public accounting firms in southern Indiana, I am consistently influenced by the good judgment and common sense of the firm's clients and business and professional associates.

Many difficult decisions must be made about collecting and spending federal tax dollars. The President and certain members of the Congress are responsibly preparing to make these difficult decisions. I applaud your efforts to prepare by listening to the good judgment and common sense business and professional people have to offer.

Business people do not pay certified public accountants to tell them what they already know and I am sure you have not invited me here to do the same. However, from time to time they appreciate being reminded of some things that might have been taken for granted.

MONROE SHINE & CO., INC.

February 11, 1985

Occasionally one hears someone say "the money does not matter - it is the principle involved." Experienced business people generally regard this a declaration that only the money matters. I suggest you keep this in mind when proponents argue a particular tax principle. The money involved is really all that matters.

Before a country boy leaves for the city his father warns "keep your hands in your pockets." If the boy heeds this advice, he will protect his purse from pickpockets and have his money for its intended purpose. I suggest the Congress keep its hands in its pockets and protect the national purse.

People take risks, succeed or fail, and eventually pay taxes. Corporations do not. Corporations are only a means to facilitate individuals joining together to take risks and share the rewards of success or penalties of failure. The family owned business provides the clearest examples. Please recall your days as the leader of your family's business when proponents argue for increased business taxes.

Similarly, corporations do not respond to the special needs of the less fortunate among us - concerned and caring people do. The leaders of a business in Paoli, your wife's hometown, have a program of donating a specific percentage of net income to children's organizations that cannot obtain funds from government sources. Please do not let our government obstruct the many good works business and professional persons seek to accomplish.

MONROE SHINE & CO., INC.

February 11, 1985

I have the following specific comments concerning our tax code and system of collecting federal taxes.

The tax implications of business transactions are not predictable with a high degree of confidence. This obstructs business expansion and unnecessarily increases risks for those who seek to start a business.

The principle reason for lack of predictability is the recent tidal wave of federal tax legislation. The Treasury Department and Internal Revenue Service cannot keep regulations and procedures current. Business people and their advisors frequently have no guidance whatsoever about the government's position on a specific business transaction. The day-to-day needs of business do not allow running to the Tax Courts for an interpretation of what Congress meant to do or not to do.

Each time the Congress reforms or simplifies our tax system, we get just the opposite. Leaving the existing tax system as it is surely will not make matters worse, and might allow the Treasury Department, Internal Revenue Service, taxpayers, and their advisors to bring some predictability back to our tax system. Besides, the jokes about tax accountants relief acts are no longer funny to the tax practitioners or their clients.

All the recent federal legislation is dramatically increasing the complexity and cost of compliance with our tax laws. The complexity leads to a lack of confidence in our tax system and the cost of compliance promotes the evasion of taxes rightfully due. The best example of this is the recent legislation and Treasury interpretations concerning recordkeeping requirements for deducting automobile business expenses. The proposed rules are so complex that on first examination they seem a practical joke that did not turn out funny. However, a closer examination reveals the rules for what they are - a penalty - a punishment of those who must have an automobile to conduct their business.

I find stories about how the Russians evade their bureaucracy amusing. If the Congress keeps insisting on rules like those for business automobiles, it will not take us long to catch up with the Russians when it comes to evading bureaucrats.

There are more specific and direct effects of tax laws that are too complex. Many states and local governments base their tax systems on that of the federal government. It is increasingly hard for them to keep up with the federal government. When they cannot, the taxpayers have to deal with significant differences in computing tax for various tax authorities. This makes the taxpayer's cost of compliance higher.

Recent legislation has dramatically increased the work load of taxpayers and their professional advisors. One change is the provision of the Subchapter S Corporation Revision Act of 1982 that requires many corporations to use a calendar year for tax purposes as opposed to a natural fiscal year. In many cases the calendar year has no bearing whatsoever to the natural cycle of the business. The family business I grew up in is a popcorn processing business. You pick popcorn in the fall and therefore there is some sense in a September year end. A December 31, year end makes no sense. It confuses the business owners and causes extra work for their accountants at the very busiest time of the year. This type of legislation does not result in simplification nor does it encourage taxpayer compliance.

Many citizens and too many members of Congress believe the federal deficits can be eliminated by raising tax rates, particularly the rates on the higher level income tax brackets.

Internal Revenue Service data for 1982 income tax returns shows approximately 4.5 million people filed income tax returns reporting an adjusted gross income exceeding $50,000. These taxpayers paid just about $100 billion of income taxes. These 5.8% of all individual taxpayers paid 35.8% of all individual income taxes. In addition, they paid their full share of social security, unemployment, and excise taxes.

The Congress cannot add to the tax burden these few people now bear without reducing their incentives to take the business risks our society rewards with a higher income. I might suggest the tax principle of fairness here. Is it fair for 5% of the taxpayers to carry 35% of the tax load? But you will remember talk of principle is only camouflauge. It is the money that matters and these particular taxpayers are paying too much of their money to the federal government.

MONROE SHINE & CO., INC.

February 11, 1985

Thank you for the opportunity to share my thoughts. I encourage you to consult with other business and professional persons in Indiana about the issues now before the Senate Budget Committee.

Sincerely,

Dale Gettelfinger

Dale Gettelfinger

DLG:vld

Senator **Quayle**. The last witness in this group is Theodore M. Solso, vice president, special engine markets, Cummins Engine Co. Mr. Solso.

STATEMENT OF THEODORE M. SOLSO, VICE PRESIDENT, SPECIAL MARKETS, CUMMINS ENGINE CO., COLUMBUS, IN

Mr. **Solso**. Good morning. It's a privilege to be here. Rather than read from my text, I'd like to just hit a couple of highlights.

Senator **Quayle**. We will incorporate the full text.[1]

Mr. **Solso**. Fine, thank you.

My name is Tim Solso. I work for Cummins Engine Co. which employes approximately 9,500 people here in Southern Indiana.

My current responsibilities include defense, and we do approximately $150 million year—so I've declared my vested interest, as I see everybody else declaring their interests.

The message that I'd like to make today is, again, regarding the deficit. My concern and my company's concern is that there is a lot of lip service but not the sense of urgency we, we as a country need, and we think it's a more serious threat to the quality of life in the United States, which I think is the highest in the world.

DEFICIT IN THE SHORT TERM A GOOD THING

I guess if I can leave one message with you—and I think you share some of these same ideas—to take back, it would be that the deficit is, in the short term, maybe a good thing, and we're talking and thinking in short-term views.

Long term, we're exporting jobs. I think just basic economic sense, we can't have these high interest rates. We don't spend the capital. We have an incredibly high dollar versus foreign currencies, and for us that are in multinational corporations, we're faced with decisions on where we invest capital and employ people.

I'll give you a personal example: the last 5 years I've been responsible for running a subsidiary in England that manufactures automotive components. We opened up a plant in Madison, IN, that manufactures similar components. When I started, the pound was $2.40. Now, it is $1.08.

Therefore, we started the plant in Madison because of the people and the productivity, and we've had major cost-reduction efforts.

We are now ready to initiate our second layer of capacity, and even though we have more productive individuals here, the exchange rate will not allow that, and so we are faced with a long-term decision: Will the exchange rate become good again, or will it always be that way?

And one way of looking at that is, what sense of confidence do we have in our own Government and ourselves in controlling a deficit. And if we believe, long term, that we are not going to control it but rather have lipservice, then we will build plants outside the United States; that's what I mean by exporting jobs.

That's not unique to Cummins Engine Co.; every manufacturing company that competes on a worldwide basis has to have low costs. I think that's something that people don't necessarily understand when they think of a deficit and they hear strong dollar, instead they think that's good.

---

[1] See p. 329.

CUT SPENDING AND RAISE TAXES

Now, making that case in presenting the problem you know very well what is the solution—again, I speak probably more from personal experience on this, I don't think the solution is in either cutting spending on Government programs or raising taxes. I think it's a combination of both and I think it has to be a long-term program; it can't be viewed on a short-term basis. Your comments on growing defense spending, on commitments we make today but pay for later evidence such.

If you look at spending first, it's my understanding that 80 percent of the budget is in Social Security and Medicare, defense, the interest on the deficit that we're talking about, and income assistance programs.

As a businessman, I have never seen a budget you can't cut and make more efficient by 10, 15, or up to 20 percent. With the kind of numbers we're looking at, I think we're going to be faced with making some hard choices, and the politicians are the ones that are going to have to make those choices, which I encourage you to do.

As far as your defense procurement, I agree with your earlier comments. I would encourage you to become more aggressive on that; and even as a defense supplier, I believe we need more competition. I think we need more efficiency in a supplier-customer relationship, so keep at it.

The final thing is that I think you're going to have to raise taxes. Some things to be considered, and it's my understanding they're being studied, would be import taxes, maybe import taxes on oil only or import taxes across the board.

I'm not an expert in that, but with the overcapacity in the world today, especially on oil, it's my assumption that an import tax would be passed back to the people that are exporting the oil and not be necessarily the burden of the taxpayers here. These are areas for further exploration.

I see the red light is on, so I'll be quiet. Thank you.

Senator **QUAYLE**. Thank you very much, Mr. Solso.

[The prepared statement of Mr. Solso follows:]

Testimony
on
Federal Budgetary Policy
before
The Committee on Budget
# of the
United States Senate

New Albany, Indiana
February 13, 1985

By Mr. Tim M. Solso
Vice President, Special Markets
Cummins Engine Company
Columbus, Indiana 47202

Senator Quayle and other members of the Senate Committee on Budget, I am Tim Solso, Vice President, Special Markets, Cummins Engine Company, Columbus, Indiana. It is my privilege to appear before you to offer testimony on federal budgetary policy.

Cummins Engine Company is the world's largest independent manufacturer of diesel engines and related components. While we sell engines for virtually every kind of application in diesel-powered equipment within our power range in U.S. and international markets, a major market for Cummins is the one for North American, on-highway, heavy-duty trucks in which we currently have a 60% share of engines sold. Another area that our engines have had success is in U.S. government markets, as, for example, in the Army 5-ton truck where sales in 1984 accounted for 7.6% of engines and kits sold and 4% of total revenues. This government market is one of my responsibilities.

I appear before you today as an individual, as a representative of a major U.S. manufacturer, which employs about 9,500 people in southern and southeastern Indiana, and as a citizen.

In each of these roles I am, on the one hand, gravely concerned about the adverse harm being done to the U.S. economy by the imbalance in U.S. economic policy, particularly by the enormous budget deficits, and, on the other hand, I have considerable self-interest in specific federal spending programs, in particular highway spending and government procurement, both civilian and defense. In this regard, I am undoubtedly like virtually every other witness before this Committee, and probably every other citizen --- worried about systemic harms but aware that I am also the beneficiary of specific spending programs.

Let me suggest for your consideration the concept of U.S. international economic competitiveness as the key criterion by which we evaluate all proposed U.S. governmental actions - spending, taxation, or regulation. A recently published collection of studies, edited by Professor Bruce Scott and Professor George Lodge, presents evidence that the U.S. since the late 1960s has been becoming less competitive in the world economy. This evidence includes a shift from trade surpluses to trade deficits (over $100 billion in 1984), a loss in world market share for almost all categories of goods, including in most high technology sectors, and, since 1960, a decline in the U.S. share of world trade (from 16% to 11%) that is greater than the decline in our share of world GNP (from 26% to 21.5%).

At the same time, the U.S. has become ever more integrated into the world economy. Exports and imports each have equalled about 10.5 to 12% of U.S. GNP since 1980, compared to 6% and 4% respectively in 1960.

I see this increasing internationalization of the U.S. economy in our business, too. Before 1980, our major domestic customers for on-highway engines were 7 major U.S. truck manufacturers. Today, three of these original equipment manufacturers - we refer to them as OEMs - are owned wholly or substantially by three major European companies, Daimler-Benz, Volvo, and Renault. At the same time, there are a half dozen Japanese truck and/or engine manufacturers entering the U.S. market directly as well as two to three other European companies.

If we evaluate our current macroeconomic policies by this criterion of international competitiveness, those policies, which are the product of both Congressional and Executive branch actions, do not fare well. The federal budget deficit --- the result of the policy imbalance --- is the single greatest threat to the long term standard of living of U.S. citizens. The consequences are a familiar litany to us all. These deficits are partly responsible for historically high, real interest rates, which mean a high cost of capital for manufacturers and over time depressed investment, and which exacerbate the credit crisis in

U.S. agriculture and in less developed countries. The deficits are also partly responsible for the extraordinarily high value of the dollar in international markets, which have contributed to a relative decline in U.S. export growth and a significant increase in U.S. imports.

Through this impact on exchange rates, the deficit is promoting the export of U.S. manufacturing jobs, primarily by encouraging out-sourcing of components. While most of the public attention has been given to the relationship between the dollar and the Japanese yen, the fact is that the dollar has appreciated more rapidly against major European currencies in the last year or so than against the yen. For us, this has meant increased pressure from European engine manufacturers, most of which are integrated manufacturers producing trucks, drive-lines, and engines, intent on selling these engines into their U.S. truck manufacturing subsidiaries. The rapid rise in the value of the dollar provides them either a pricing advantage, a profit - margin advantage, or a combination of both.

For several years, worldwide competition on a real cost basis has been intense. For the most part this has healthy for us manufacturers and for the economy as we have been forced to manage and work more intelligently and efficiently with a focus clearly on serving and adding value for the customer. A large part of the competitiveness problem is for U.S. manufacturers to solve within our respective companies. We accept that challenge, so have all our employees, and significant progress is being made. But an artificially high dollar, due in part to the federal deficit, places on U.S. manufacturers a disproportionate cost-reduction burden and in a relatively short time frame. One of the consequences of this is a not very visible but an accelerating movement to export jobs through sourcing from lower-cost countries where the exchange rate also works in favor of the U.S. manufacturer.

In the short run, the deficit boosts aggregate demand and consumption, and, through its impact on exchange rates, helps hold down inflation. But, over the intermediate-term it is eroding U.S. employment, particularly in manufacturing, and, by swallowing up 50% or more of savings, it will depress capital formation, both tangible and intangible, which is central to a higher standard of living a decade or two hence. This intermediate-term impact of the deficit will be relatively more severe here in the Midwest than elsewhere. Agriculture and manufacturing account for a significant portion of employment, production, and exports for Indiana and neighboring states.

It is true that budget cutting does reduce aggregate demand, but the long-term adverse effects of a continuing deficit of $200 billion per year are far worse. One of those adverse effects is paying interest on interest. Net interest paid has increased from $52 billion in 1980 to $111 billion in 1984 and is estimated to be $145 billion by 1986 on a current service basis. Even if all the Administration budget proposals were adopted, the net interest cost would be an estimated $142 billion for 1986. Interest costs alone are almost equal to the deficit itself. If major steps are not taken this year, then rising interest costs will cause the deficit to mushroom.

To reduce the budget deficit to manageable levels will require a mixture of budget cuts and tax increases over the next several years. I would suggest the following criteria to guide both budget cuts and tax increases:

- Effect on U.S. competitiveness in the world economy;
- Effect on those Americans least well off;
- Effect on savings and investment (including intangible investment in education, training, research, etc.)

There should be a presumption against any proposed spending reduction or tax increase that would significantly and adversely affect U.S. competitiveness, low-income citizens, or savings and investment. There may be both offsetting benefits and a lack of alternatives with respect to any specific proposal having such an adverse effect such as to justify the action anyway, but such findings ought to be explicitly set forth in order to overcome the presumption.

With respect to spending, particular care needs to be given to evaluation of FY 1986 program proposals for which budget authority and/or outlays would grow substantially in later years. Such a program may appear to have insignificant effect on the current deficit, but outyear growth will place enormous pressure on other budgetary items in later years and will essentially postpone the difficult choices that have to be made.

Significant savings will eventually have to come from income security, social security and medicare, and national defense programs, as well as from net interest costs. Reductions in the latter will be a consequence of overall deficit reduction. But these four categories account for 82% of the estimated FY 1986 current services budget authority and 81% of the current services outlays, and will remain so each year into the foreseeable future. For the sake of analysis, eliminating all other outlays would still leave a $26 billion deficit in 1986 (excluding any reduction in net interest costs). Since these "other" areas of the budget have accounted for most of the spending reductions that have been voted by the Congress since 1981, there is probably not much room for further reductions in them as a whole. Even if for the sake of argument the Administration's F.Y. 1986 proposals for outlay reductions for these "other" programs were passed, this would mean a $30 billion reduction (or about 15.5% of this "other" spending and 3% of total spending). Further cuts in these "other" programs as a whole would in later years be difficult to achieve, and it is doubtful that they would be prudent reductions since these "other" programs cover such areas as science, technology, health, international affairs, education, training, etc.

What is left is either much deeper reductions in the defense, income security, and social security and medicare programs than are currently proposed or contemplated, or if we as citizens wish to maintain these programs and many of those in the "other" category as well, then a commensurate tax increase.

In short, if we citizens wish to secure certain objectives through joint action, we have to be willing to tax ourselves sufficiently to finance them.

I close with two thoughts. First, with respect to budget reductions, it may be useful to analyze all the short-hand phrases we all are using in this debate about possible spending reductions. For instance, when we say every program must give up its share to achieve equity, we need to remind ourselves that that share depends when and from where we started. It is the classic base-year in an index problem.

We might look briefly at defense as an example. Defense spending as a share of GNP declined from about 8% to about 5.5% from 1963/1965-1973/1975, and from about 40% to 28% of the federal budget. During the mid 1970s, defense spending in real terms declined absolutely compared to FY 1970. In the late 1970s, there was a significant real increase in spending (about 2% per year on average), and from 1981-1984, an even larger real increase (close to 10% per year). Yet proposed FY 1986 defense spending as a percentage of GNP would be at 6.5% and at 27.4% as a share of the budget, about equivalent to 1973.

Given this history, what would be defense's fair share? While political reality may ultimately require resort to such short-hand formula, it would be better for the Congress to have a debate first not on specific procurement programs or budget line items, but on clarifying our national security interests, the threats to them, and then the broad force alternatives for protecting these interests. Such a debate might provide the necessary foundation for deciding either that more savings in defense than are being proposed are possible or that we need to tax ourselves more to finance collective security benefits we believe essential to our well-being.

We need to have similar debates through the agency of our representatives over the other big ticket spending programs as well.

Finally, on the revenue side, broadening the tax base to remove distortions and increase fairness is a necessary element of any income tax-based revenue increase. Trying to make the tax system as neutral as possible between savings/investment (including intangible capital formation) and consumption ought also to be a major objective because of the effects on U.S. competitiveness.

Thank you for the opportunity to appear before the Committee. I would be happy to try to answer any questions.

STRONG DOLLAR HURTING US

Senator **QUAYLE**. I certainly agree that our strong dollar—not only with respect to your particular company but also with respect to agriculture is hurting us. In Indiana, we export about 40 percent of our commodities, and a strong dollar, while still recovering from the grain embargo, plus some bad weather as in the past few years, plus the competition that we're seeing out there, and the high target prices, price supports, and loan rates—makes for a tough job to increase exports.

Let me ask you a couple of general questions. As a contractor in the defense business, is the defense community willing to be part of this deficit reduction package? You are willing to—I mean as a general principle—accept that we're going to spend less on defense than what the administration has requested, or perhaps, what we had anticipated 2 or 3 years ago. Is that a fair assessment?

Mr. **SOLSO**. I think so.

Senator **QUAYLE**. I think it's important to note that because if you look at the adminstration's requests—which are significant increases—I would guess that the Congress would probably cut anywhere from $10 to $18 billion, again, just this year. Our trick, as you pointed out, is to try to look down the road because what we do this year, short term, is really somewhat insignificant to what we can do in the long term.

COMBINATION OF SPENDING CUTS AND TAX INCREASES NEEDED

If I listen to your testimony correctly, you are basically saying, "OK, we have the deficit; it's got to be reduced, the value of the dollar," et cetera. You are recommending that we do it through a combination of spending cuts and the recognition—probably, when you listen to the testimony today, there still hasn't been anybody offer up a program that they are currently receiving—saying, "We don't need it anymore. We can get by with less." We haven't seen that yet—probably won't, so, therefore, we will have to make some decisions on which ones to take and which ones not to take.

But I detect that you are saying, "All right. Cut spending as a priority, high priority, but we're really probably not going to get there and, therefore, you're going to have to look at revenues," and what you suggest is that oil revenue enhancement—it's consumption tax. And, therefore, what you're suggesting is that you're going to have to have some sort of a compromise and a combination of both if we're really going to do this in a serious way.

Mr. **SOLSO**. Over a longer period of time, too.

Senator **QUAYLE**. Not just 1 year, but over a longer period of time.

Mr. **SOLSO**. That's right.

Senator **QUAYLE**. I agree. The problem we have with that is that by binding future Congresses you get into political problems. You can do it for about a 2-year period of time, or you can make some changes that down the road, hopefully, that other future Congresses won't change, but the 2-year thing—it would be nice to look at a 5-year plan and be able to make those suggestions, but sometimes we get in a problem of a few things that we can do that will affect the 5-year plan. There are some things, and I certainly think that we ought to.

MEDICARE FREEZE

Mr. Teeple, as far as Medicare, you indicated that the administration's proposal is, I think, about a $5.6 billion reduction in Medicare, and that's too much.

You've heard a lot of discussion; you've read and listened to the freeze across the board people are talking about. From what I gather, a freeze across the board would not be terribly palatable to you; is that correct?

Mr. **Teeple.** If it's going to be a freeze of everyone, we're willing to do our share.

Senator **Quayle.** If we would freeze everyone, that is, have a general freeze across the board, would you be able to swallow a freeze in Medicare?

Mr. **Teeple.** Yes.

Senator **Quayle.** You would?

Mr. **Teeple.** Yes, sir.

Senator **Quayle.** OK. I appreciate the candor because if you look at that freeze in Medicare, it's going to be one of the items that is certainly going to have to be—or it is part of the so-called "freeze package," but it's also one of the ones that is regarded along with the sacred cows.

Mr. **Teeple.** But we object to being singled out for a freeze when it's not applied across the board.

CONSTITUENTS APPREHENSIVE ABOUT TAX SIMPLIFICATION

Senator **Quayle.** In other words, you will be willing to take it as long as everyone else is on it.

Mr. Tyler, can you tell us what your constituency feels about tax simplification? From your perspective, is there general agreement in that direction, or is there a lot of hemming and hawing, ifs, ands, and buts, and "Yes, we'll be willing to do it as long as my tax credit and tax deductions are protected"?

Mr. **Tyler.** I would have to say that I think the general feeling of my constituents are apprehension because every time that tax reform has come along, or tax simplification concepts, the end-product, I think that was expressed earlier through Mr. Gettelfinger, have not been to our advantage or to the advantage of our constituents.

Senator **Quayle.** Well, Mr. Gettelfinger hits a responsive chord when he starts talking about my wife's hometown being in Paoli. I'll pick up right there—her brother lives there, sister-in-law, uncle, and the whole gang, so——

Mr. **Gettelfinger.** I do business with those people. I have to stay on good terms with them.

Senator **Quayle.** Yes—well, so do I. And believe me, it's much more important for me to stay on good terms with them than you. I can assure you that in the interest of social prosperity in the Quayle family, it's much more important than perhaps economic prosperity as far as you may be concerned.

Mr. **Tyler**. Sir, if I might just add that I think, generally, the business community, if they were all in agreement on one major point, it would be that there's an awful lot of paperwork that is still required by private sector companies that they feel is expensive. They could put those resources to better use if it were continued to be eliminated, or could be eliminated.

LOG REQUIREMENTS OF COMPANY-OWNED CARS UNREASONABLE

Senator **Quayle**. Speaking of paperwork, let me just finish with one question that all of you may comment on.

There's a new regulation, that was passed in this last Congress in 1984, dealing with log requirements of company-owned cars.

Some have argued that it's an unreasonable intrusion of the Government; they shouldn't be there in the first place. Others are saying that it's a tremendous amount of paperwork.

There have been some adjustments; IRS has basically said that you can take 70 percent—no problem. "It's the other 30 percent that we're going to be concerned about." Others are still saying, "Well, we don't know whether we're in that 70 percent or out of the 70 percent." Some are in, some are out, and it's still unreasonable paperwork and unreasonable intrusion.

Let me just ask each of you if you might want to comment on the logs. I tell you, I've had a lot of mail on that and had a lot of communications with both the public and private sector. It hasn't come up yet, but I'll just bring it up.

Mr. Gettelfinger, do you have any comment about that? What do you tell all your clients out there about how they can comply with this IRS rule and how they're coping with it?

AUTOMOBILE LAWS MORE THAN TAXPAYER CAN BEAR

Mr. **Gettelfinger**. Well, let me give you an example of the good faith taxpayer. We saw this problem coming and we bought 1,500 little record books for people to keep their records in, that they could put above their sun visor.

The good faith of the taxpayers—our clients went through those 1,500 books in about 2 weeks. Everybody wanted to try to comply, and so we bought another 750, and we've used those up, so everybody wants to comply.

But the businessman, the doctor, the lawyer, whoever, sits in their car and tries to keep these records and they find that they spend time keeping these records, and discover the time spent in keeping the record is much more valuable than the tax deduction would ever be. Therefore, they—they don't like it. They become hateful and they become suspicious of the Government.

Then what they try to do is they try to come up with ways to cheat—and I have heard some very ingenious ways of cheating the Government on these automobile laws.

Senator **Quayle**. You advise against that, though?

Mr. **Gettelfinger**. Well, yes, we advise against that.

Senator **Quayle**. You know, we have someone back there recording all this.

Mr. **Gettelfinger**. You know, we have to sign that return just like the taxpayer does. But it's just hilarious, the schemes that people will come up with. You read about the Russians, how they avoid lines and how they avoid putting up with all this redtape that their bureaucrats give them, and I saw our clients in the same situation.

Yes, they started out, wanting to make a good-faith effort to comply, but once they saw just how complex it was. Now we've got the payroll tax withholding rules that make it even more complex, they've just thrown up their hands, it's just too much. It's more than the taxpayer can bear.

Senator **Quayle**. Mr. Tyler, do you have anything to add to that?

COMPANIES NOT GOING TO LEASE CARS

Mr. **Tyler**. No; I'd have to agree with what Mr. Gettelfinger has pointed out.

One of the things that it has done, I think, and I've heard this in several quarters, is that the companies are not going to lease cars anymore, or at least get cars for their employees. It's apparently simpler if you own your own car, you log in just the time that you are using it on company business and then charge the company for that as opposed to having a company car. Apparently it's more complicated if you have a company car, because you have to record every bit of mileage and account for everything that you use that car for.

Senator **Quayle**. Mr. Teeple, do you want to comment on this?

Mr. **Teeple**. It is a hassle to record every use of a car—just this morning getting into a cold car and trying to write down the mileage with numb hands. It is a great inconvenience.

Senator **Quayle**. Mr. Solso.

LOOK AT CUTS CAREFULLY BEFORE MAKING POLICY DECISIONS

Mr. **Solso**. I don't get a company car, so I'll talk about something else.

I'd like to make one other point—I've seen politicians move back and forth and not answer directly, but, Senator Quayle, as you look at cuts over a period of time, as you look at a policy statement, I would encourage three things: First, how does an act, event, or cut affect America's ability to compete overseas? Second, how does it affect, perhaps, those that are less fortunate or disadvantaged—more disadvantaged. Finally, how does it affect our future in terms of investment in a savings program. That includes not just hard capital for plant equipment but also training programs and some of other intangible things.

I think if we look at those three things as we go through, rather than looking at vested interests, perhaps we'll make some better policy decisions.

COMBINATION OF SPENDING CUTS AND REVENUE INCREASES LIKELY

Senator **Quayle**. Yes. Well, one of the reason I'm having these hearings is so we can articulate the principles and the policies. But as those principles and policies filter down, we're going to have to have spending restraint and spending cuts.

And I think probably we're really seeing a long march toward some recognition that we're going to have to do something on the revenue side.

I have had 3 days of hearings and, as I said, there haven't been a whole lot of people offering up programs they would like to see eliminated or seriously reduced. They are talking about a freeze which makes—it's going to make some political policy decisions very, very tough.

And as we start down this road, and recognizing that perhaps revenues, at some time, are going to have to be part of a package deal, then we're looking at a combination of the two; and then you come into looking at investment and savings. You look at the international competition aspect; again, the Tax Code plays in there quite heavily.

UNDERSTANDING IMPACT AT LOCAL LEVEL IMPORTANT

But all these things—policy decisions, in fact, do trickle down, so to speak, to have real impact at the local level, and that's the important thing, to get an understanding on what that impact is going to be, try to establish a condition and environment and attitude out there to say, "OK, things are different today than they were in the 1970's or late 1960's where there was an infinite amount of resources and we could have everything."

You can remember the good old guns and butter days—there were no limitations—and that philosophy carried on for basically a decade, and now we're paying for that.

I have often made the statement that it would have been a lot more fun to be back serving the public in that time because I could have been having a public hearing and asking you to come up with creative ideas on how we can spend more money, just because we had more money; and yet, today, we have to ask you to come forth with creative ideas—and it's a lot more difficult to get that creativity and innovation on how we're going to spend less money and still provide the essentials—social services, and to see the economic growth that we all want to see retained.

So I thank each and every one of you for your contributions. I value it.

We have one more panel of Mr. Edward Adams, Mr. David Hoover, Mr. Kreilen, and Mr. Monroe.

First on my list is Edward Adams, the treasurer and superintendent for fiscal affairs in the New Albany-Floyd County Consolidated School Corp.

Mr. Adams.

STATEMENT OF EDWARD R. ADAMS, TREASURER/ASSISTANT SUPERINTENDENT FOR FISCAL AFFAIRS, NEW ALBANY-FLOYD COUNTY CONSOLIDATED SCHOOL CORP.

Mr. ADAMS. Thank you, Senator. I appreciate this opportunity, Senator, to offer some summary comments on the effect of proposed tax cuts and the Federal deficit. I want to acknowledge, first of all, that we, as a school system, and the entire public school system in Indiana acknowledge that these are budget-biting times, and you may find in my testimony that I may be the first one today to put my own program on the auction blocks——

Senator **Quayle**. Great! I can't wait.

Mr. **Adams** [continuing]. So I want to go on the record on that first.

I'm attempting to represent today at least 20 State and local organizations, as well as my own views based on about 20 years in public school management, and there are thousands of subjects that we could address today.

I am going to, in my short testimony, relate to, No. 1, the Federal Education budget; as I've outlined in my remarks, those will deal with the U.S. Office of Education, and I'm going to use that term, "U.S. Office," rather than "U.S. Department of Education." That indicates where I think they ought to be. My remarks will cover as well, Public Law 874, impact aid, and compensatory aid, and most of the block grant moneys that you are pouring in directly to local schools.

I'm a little bit of a heretic in terms of public school administrators because I believe that the public education system in this country should be reserved for a more or less special partnership between State and local districts, and that the Office of Education, with its myrid of special competing interests and bureauracy, should be deminished and relegated to the role of research and coordination.

I do believe that there are some items that I will bring up here that should be looked at very closely by the Senate Budget Committee and the entire Nation, as far as the expenditures are concerned.

PUBLIC LAW 874

Looking first, for example, at Public Law 874, which I think is debated every Congress, there is a good percentage of money, that impact aid, that comes back to local districts in the form of "grandfathered money." Those are districts who receive money back in the fifties and sixties in impact aid which no longer have students whose parents live on federally operated properties.

I don't have the exact figures on it—I'm sure you do—but in most States today, as I know in Indiana, it's a small amount of money, but when you multiply that by 30,000 districts in the United States, I think you're coming up with quite a bit.

Most States allow small local tax increases at the property tax level to make that up.

COMPENSATORY EDUCATION

Chapter 1 allocations, which I think is debated every Congress also, are allocations for compensatory education. They've been spiraling. I expect since 1963 when those started, in one form or another, we're talking about over $100 billion, cumulative over that time. Few people have really ever looked at what those long-range results are, and we're dealing with the same students year in and year out through that period, and nobody has really looked to see, at the 12th-grade level, what has really happened to those students who were originally identified for the program at the third grade level.

EDUCATIONAL BLOCK GRANT CONCEPT

Another area that I think should be looked at is the educational block grant concept. That's a relatively new concept that comes out of chapter 2 of the Education Consolidation and Improvement Act. For our district, as an example, it's about $102,000.

Most districts would acknowledge that at least 10 percent of that could be cut out from 1 year to the next, and so I would recommend that you look at cutting 10 percent in 1986, 1987, and 1988, and it wouldn't severely limit the operation of local school districts.

Most of that money right now is being spent in microcomputers. A lot of districts are spending up to 50 to 75 percent in hardware acquisition, so it's an area that we really ought to look at.

FOOD AND NUTRITION CUTBACKS

The proposed cutbacks in food and nutrition in school lunch I think are attracting a lot of attention. Those would result, in most districts, in about a 10- to 15-cent increase in daily lunch prices which, again, the American middle class is going to be picking up most of that. Those people in lower income classes are qualifying because of various food stamp standards, they're going to get a free lunch anyway, so I don't think that's going to have any severe impact.

PUBLIC SCHOOLS MUST SHARE IN REDUCTIONS

I will finish my comments by indicating that I can readily acknowledge that these proposals do not produce but just a pittance of the reductions necessary; they do reveal something that the public schools should put forward as a spirit in sacrifice that they must share in and begin to bear.

We all must find the means to accept that necessity of a major tax increase eventually. The area that we're talking about in Federal education revenue is not that much, but we are willing to share in that.

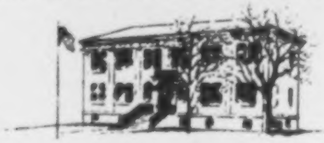
Thank you for allowing me to be here.

Senator QUAYLE. Thank you very much, Mr. Adams.

[The prepared statement of Mr. Adams follows:]

NEW ALBANY-FLOYD COUNTY
CONSOLIDATED SCHOOL CORPORATION

Dr. Tracy Dust
Superintendent
John F. Seville
Associate Superintendent
Herman D. Healy
General Counsel and Assistant
to the Superintendent
Edward R. Adams
Assistant Superintendent
for Fiscal Affairs
Charles E. Fields
Assistant Superintendent
for Vocational &
Community Education



ADMINISTRATION BUILDING

BOARD OF TRUSTEES
Charles Lockman
President
Mary C. Hauswald
Vice President
Bernard Bauer
Secretary
Stanley Aebersold
Member
Bill Forsyth
Member

802 E. MARKET STREET • P.O. BOX 1087
NEW ALBANY, INDIANA 47150
812/945-6681

Testimony of Edward R. Adams
Assistant Superintendent of Schools
New Albany-Floyd County Cons. School Corp.
New Albany, Indiana

Submitted for:
Wednesday, Feb. 13, 1985
Federal Building
New Albany, Indiana

Overlapping Professional Memberships
Governor's appointment, Indiana State Rehabilitation Services Board
Legislative appointment, Indiana General Assembly interim committee on local tax alternatives
Board of Directors, Indiana Association of School Business Officials
Former Director, Indiana State Department of Education, Director of Educational Information & Research

Members of the Committee:

I appreciate this opportunity to posture my views on the effect of proposed tax cuts and the federal deficit. These are certainly "bullet biting" times and we are pleased that you want input from the American heartland.

While there obviously are thousands of subjects to address, I will reserve my comments to -- a) The Federal Education Budget, as applied to:
    1. Role of the U. S. Office of Education
    2. P.L. 874 "grandfathered" aid
    3. Compensatory aid Chapter I .
b) Military pensions and perks/federal employee pensions
c) Defense Department needs vs. wants
d) Social Security
e) Federal highway outlays
f) Proposed cuts in the National Endowment for Arts and National Public Radio
g) Revenue sharing
h) Necessity of a major tax increase with corresponding overhaul

First and unlike many educators, I believe that the public education system of this country should be reserved for management partnership between the state and local districts. The Office of Education with its myriad of special competing interests and bureaucracy should be relegated to a role of research, coordination and motivation only. Financial support in federal categorical programs should really be scrutinized and substantially narrowed.

P.L. 874 impact aid for "grandfathered districts" is not the same as real impact aid and should be eliminated. Most states allow tax increases as impact aid decreases. Chapter I allocations for compensatory education have been spiralling since the mid 60's and few have ever looked at what the long range results are or whether they've been worth the investment. The educational block grant concept is excellent, but could be maintained in 1986-87-88 with 10% cutbacks. The effects would be minimal or none and local school districts are generally gaining more revenue generation flexibility from various state legislatures.

Many educators will consider these introspective observations as heretical. I do not suggest that any of these monies are wasted or undesirable, I merely state that a large part never directly reaches or enhances student learning, instead it reaches pay pockets and provides jobs, but the kids really receive very little in educational advantage.

Military and federal employee pensions I'm sure have been looked at by this Committee and the Senate. I bring it to your attention because of the hundreds of thousands on such pensions and their proliferation back to local and state communities. The perceived image of these people receiving substantial retirement incomes in their late 40's and 50's, when the rank and file middle class is still working hard to stay ahead, provokes mistrust and antagonism toward the federal government. The concept of government-subsidized early retirement pensions, I realize has been with us for years and would not be easy to reduce or deter, but a two-three year freeze on increases would show the working professional, the union tradesman and single working parent that government and military pensioners are not immune from government tax cuts.

Similarly, those of us in professional, educational and community service, feel strongly that the Defense Department must rein in its staggering fiscal demands in the name of national interest and nuclear competition. For too many years, the American taxpayer has heard and seen of the waste and oversupply on military and civilian payrolls. All we ask is that Defense employment and expenditures go through the same rigid survival steps that private enterprise, small business and local government must adhere to. Procurement scandals and waste are eroding the credibility of the Defense complex. Until then, we urge you as responsible legislators to hold Defense budgets to the status quo.

Social security increases likewise should be frozen, in instances where the adjusted gross income of the recipient is more than $20,000. While that income level is certainly not for a growing family, it could well be an affordable one for a 62 year old. The millions of our social security recipients with gross incomes of over $20,000, obviously have other income sources and I believe could afford the loss of 4.1% social security increases.

In the face of such a gigantic budget deficit I also urge a moratorium on new highway construction. Current appropriations should be used for maintenance and repair, but major new highway and interstate development should be placed on hold.

Of proposed deep cuts in the National Endowment for the Arts and National Public Radio, I urge your reconsideration. The magnitude of these curtailments substantially reduces the services and spirit of true public services which do reach down to the multi-level grassroots of America. The relative budgets and operating services of arts and public radio are miniscule beside the other monolithic functions of our federal system. I would hope the President and the Congress see fit to at least hold current funding levels in these appropriations.

Revenue-sharing distributions for capital improvements and support for local government is being phased out in the long run. Counties and cities currently use this mainly to keep effective property tax requirements down. Why not begin now to immediately cut revenue-sharing allotments? The cost of local government under our new federalism needs to be clearly translated and borne locally and determined locally.

In conclusion, I can readily acknowledge, as you already know, that my testimony and proposals do not produce but a pittance of the reductions necessary. They do reveal the spirit and sacrifice that we all must share in and begin to bear. We all must find the means to accept the practical necessity of a major tax increase in 1986 or 1987, coupled with new revenue from economic resurgence and corresponding efficient overhauls to eliminate tax loopholes for the rich and near-rich.

Senator QUAYLE. David Hoover.

STATEMENT OF DAVID B. HOOVER, EXECUTIVE DIRECTOR, RAUCH REHABILITATION & DEVELOPMENTAL SERVICES

Mr. HOOVER. Thank you very kindly. My name is Dave Hoover and I am executive director of the Rauch Rehabilitation & Developmental Services.

We serve the developmentally disabled population, children ages zero to five, and adults, ages 17 and up. We have working agreements currently with the Department of Mental Health and Indiana Rehabilitation Services.

AGENCY CURRENTLY RECEIVING LESS

Federal dollars are a very, very meaningful part of our total annual revenue; approximately 45 percent of our total budget is title 20 dollars. However, the recent increase in title 20 dollars has really had no effect on our agency because of the methods that the Indiana Department of Mental Health uses to distribute this to community agencies.

As an example, in fiscal year 1981 there was approximately $22 million in the system; in fiscal year 1985 there is approximately $30 million in the system, and our agency is currently receiving less than we did in fiscal year 1981. This is because of the allocation methods that the Indiana Department of Mental Health currently uses. The formula is based upon the population of the county in which your center is located rather than on the amount of developmentally disabled people which you serve.

We currently are employing, on a daily basis, 100 developmentally disabled clients. They would rather have the opportunity to serve themselves through gainful employment rather than be the recipients of title 20 dollars. This mechanism was put into place with the establishment of GSA and the NISH—National Industries for Severely Handicapped.

CURRENT OPERATIONS NONEFFECTIVE

However, the way it's currently operating, it is noneffective, with very few exceptions, for agencies other than the blind. At present, the blind organizations must sign off or say that they are not interested before any other agency can procure a contract.

Months and months of research and costs of preparing bids and so forth are useless at the present time because if the blind organization decides at the last minute they want to have this contract for themselves, they simply take it and use whatever research you have done.

The only Government contracts that we are able to get at the present time are those that are subbed to us from industries of the private sector.

Indiana could provide a pilot program in cutting through some of this redtape and allowing agencies that serve the severely handicapped to have a fair bidding practice on some of the Government contracts, be they toilet seats or whatever. I think we could do a very good job on those.

Also, the SBA—the Small Business Administration—is a very important resource tool and, in my opinion, should not be eliminated. Many agencies such as ours have secured SBA loans to enlarge their programs and increase their manufacturing capabilities.

With the Indiana Rehabilitation Services Grant Program currently in the trouble that it is in, this is one of the sources that our agency had planned on utilizing for construction of a new sheltered workshop building. At present, we are almost at capacity, and cannot meet the future needs of our community without implementing our long-range capital improvements program.

JTPA FAILS TO SERVE THE HANDICAPPED

The last concern that I have time to express this morning deals with, in my opinion anyway, the failure of the JTPA to serve the handicapped in our area. The only services that the agencies such as ours are able to sign contracts for were for job placement, no training contracts whatsoever; and recently, we were requested to amend these contracts because there were no placement funds left for handicapped people between the ages of 21 and 55.

I personally feel that one of the problems is that many of the council PIC members have a definite conflict of interest in that they are also service providers and, therefore, are awarding the service contracts to their own agency without regard to the developmentally disabled citizens.

I know JTPA is very important to you, so I thought I should mention that. As far as where cuts can or may come from, many of these things, such as JTPA and NISH, I think, are excellent for the handicapped, but at present they mean very little to some of the agencies.

Senator **Quayle**. Let me just say I would like to follow up on that. Maybe you can give me a letter detailing your concerns, because we will be having some hearings in our Labor and Human Resources Committee and will probably be in Indiana later this year. We intentionally put in the JTPA bill a setaside for the disadvantaged and the handicapped. As a matter of fact, we worked very closely with a lot of the people that were interested in making sure that the handicapped had a fair share of these funds. There is a provision in there.

Now, maybe it's not being carried out, but I can tell you that we've designed the legislation providing for such. I would be very interested in your specific concerns about this.

Next we have Mr. Thomas H. Kreilen.

STATEMENT OF THOMAS H. KREILEN, VICE PRESIDENT OF FINANCE, RES-CARE, INC.

Mr. **Kreilen**. I don't want to take too much of your time, Senator, but I'm Tom Kreilen from a company called Res-Care. We operate about seven Job Corps centers in the Midwest.

We had been scheduled to testify at Richmond, but I was afraid you might not be able to get up there because of all the snow. so I wanted to make sure that all our concerns got in the record.

TAX UNDERGROUND ECONOMY

I came forward today basically because I wanted to add something to the discussion that hadn't been raised earlier. On the revenue side, why can't something be done to tax the underground economy that seems to be growing rather rapidly. It seems to me that's a valid place to raise additional revenue and make the tax system more fair than it is right now.

That's the only point I'd like to make. I did give you the information on the Job Corps that maybe you can read on the way up to Richmond, but another from our organization will testify up there.

Senator QUAYLE. All right. I'll ask them up there. I think the question will be, if in fact, title II of JTPA could absorb any of the things that the Job Corps is presently doing. I presume that the answer from Job Corps will be no.

The one thing we had discussed in Indianapolis with the local PIC director of Marion County, Marsha Oliver, was about the communication between Job Corps and JTPA. She said it was virtually nonexistent. There ought to be some communication because, essentially, the JTPA and Job Corps have many similarities——

Mr. KREILEN. Yes; they do.

Senator QUAYLE [continuing]. Both programs serve economically disadvantaged youth, particularly title II. But I'll save all that for Richmond. I appreciate you coming.

We will place the material you have provided us this morning in the record at this point.

[The prepared material of Mr. Kreilen follows:]

The Washington Post

AN INDEPENDENT NEWSPAPER

Save the Job Corps

ONE OF THE LAST survivors of the War on Poverty is slated for extinction. The president's budget for fiscal 1986 and beyond would close down the Job Corps, one of the few programs that has ever succeeded in realistic measure in dealing with the nation's hardest-to-employ youth.

Like most social experiments of the 1960s, the Job Corps was conceived with an excess of expectation and a deficit of common sense. Unlike most social experiments, the Job Corps was allowed to survive long enough to learn from its mistakes. When Richard Nixon proposed ending the Job Corps, management was poor, discipline was lax and some sites suffered from racial discord and vandalism. As William Mirengoff, who took over the program for the Nixon administration recalls, "The media blew up every fistfight into a storm of violence."

Job Corps' administrators recruited counselors who knew how to deal with street kids, tightened up standards for counselors and youths and got unions and businesses to update training courses. A few years later, careful studies showed the Job Corps scoring impressive successes in changing the lives of kids otherwise headed for disaster—those with arrest records, out-of-wedlock pregnancy and truancy, for example, in their backgrounds.

The Jobs Corps is a residential program. It takes youths out of ghettos and depressed rural areas and moves them to camps to do conservation work and training. The hope is that the change of atmosphere and routine will make it easier for them to shake off the bad habits. That makes the program expensive—$15,000 for a year-round slot. It also means that the initial dropout rate is high, since many can't make the adjustment. But it also accounts for the program's notable success in increasing employment, military enlistment and further education, and reducing criminality and welfare dependency among the those who stick it out.

In making its case for disbanding the program, the Office of Management and Budget focuses only on the high cost per slot—ignoring the fact that more than one youth can fill a slot during a year—and the relatively low rate of direct placement in jobs—ignoring other positive outcomes such as military enlistment or return to school or the fact that, as in most training programs, large numbers of graduates find jobs for themselves. But controlled comparisons (which don't make all these obvious mistakes) show that the Job Corps is a good investment for the taxpayer. And even those calculations don't take account of the moral returns to a country that reaches out to its most disadvantaged young people.

" TERMINATE THE JOB CORPS "

A REBUTTAL

FEBRUARY 6, 1985

On February 4, 1985 in the Background on Major Spending Reforms and Reductions in the FY 1986 Budget the Office of Management and Budget (OMB) distributed misleading and inaccurate information about Job Corps to the United States Congress. This was their budget justification for the proposed elimination of Job Corps in Fiscal Year 1986. In an effort to set the record straight, here are the facts:

OMB Says:

- "In FY 1985, each one of the Job Corps 40,500 slots will cost the taxpayer $15,000. This cost:
  - Nearly equals the annual cost of sending a student to Harvard or Stanford University which is far beyond the reach of most American families.
  - Is more than three times the annual cost of education at the average year public university."

The facts are:

- In FY 1984 98,809 youth participated in Job Corps. This represents a cost of $6,244 per participant. "Slot costs" represent the cost of one year's training which serves more than one participant.
- While comparison with university education is not relevant, nevertheless, it should be noted that the $6,244 cost per Job Corps participant buys remedial education, vocational training, room and board, transportation, clothing, medical care, counseling, and recreational programs, as well as facilities construction and rehabilitation.
- Statistically, 4 out of 10 new enrollees in Job Corps have prior arrest records. Costs to incarcerate an individual range from $22,000 to $30,000 per year.

OMB Says:

- "Job Corps high cost is not justified by program effectiveness
  - Despite the provision of higher cash allowances for Job Corps members who continue in the program, most members do not remain on-board long enough to complete coursework."

The facts are:

- The Job Corps' $40-$100/month allowances have been unchanged since 1978. These allowances are for personal necessities such as toothpaste, female hygiene needs, soap, telephone calls, snacks and soft drinks, etc. Average allowance is $14/week, not a high cost item.
- Furthermore, the chance to earn higher allowances is but one very small motivational factor for a corpsmember.

OMB Says:

- "65 percent of all Job Corps terminees do not complete a course of study before leaving."

The facts are:

- This statistic is based on an internal Job Corps reporting category of top level program completion. This calls for a corpsmember to achieve the highest skill level in a particular occupation; the optimal level of achievement, but a level not realistic for every corpsmember.
- Job Corps vocational curricula are competency based and provide for training in increasingly sophisticated skill levels, e.g., in the clerical occupation, ranging from file clerk through secretary stenographer. There are numerous "step off" occupational choices.
- While 35 percent achieve the highest skill level, others leave the program after achieving intermediate skill levels, e.g., clerk typist, to seek work at that level. This, of course, does not mean that these corpsmembers exit as failures without marketable skills.

OMB Says:

° "Almost half of all terminees go AWOL or voluntary resign; of these about 30 percent leave within one month of entering."

The facts are:

° Termination statistics for FY 1984 show that, of all terminees:

  - 11.4 percent leave within the first 30 days

  - 16.4 percent leave between 30 and 90 days

  - the average length of stay is 8.2 months

° Early dropouts (e.g., within the first 30 or 90 days) often leave because they cannot adjust to the strict disciplinary systems and rigorous academic and behavior requirements imposed. This has the effect of providing available slots to those who can and will benefit from the intensive training provided.

OMB Says:

° "Only one-third of Job Corps terminees are reported as being employed within the year after they leave Job Corps."

The facts are:

° Employment Services and other placement agencies attempt to contact terminees within 6 months (not one year) after termination.

° Since a substantial number of terminees do not return to their home communities, often in search of improved job opportunities elsewhere, ES agencies are often unable to locate these terminees.

° The OMB statistic of a 35 percent rate is the result of dividing the number located and employed by all terminees, including those who have not been contacted, and assumes that none of the unreported individuals obtained employment. This borders on false and misleading advertisement.

° The OMB statistic also carefully disregards placements in further education (community colleges, vocational schools, etc.), a valid and desirable outcome for the Job Corps youth population.

- Actual known statistics are as follows:

	Year-to-Date (6 months) Program Year 1984 July-Dec 1984	Fiscal Year 1984 Oct 83-Sept 84
Total Terminations	29,437	58,834
Terminees Contacted/Reported	22,736	34,096
Reported Placement Outcomes:		
Terminees Entering Employment	15,317	20,655
As a % of Terminees Contacts	67.4%	60.6%
Terminees in Further Education	2,726	5,134
As a % of Terminees Contacted	12.0%	15,1%
Total Positive Outcomes	18,043	25,789
As a % of Terminees Contacted	79.4%	75.6%

- Furthermore, comprehensive follow-up conducted on a statistically valid sample of terminees indicates no systematic pattern of difference between those contacted and reported and those not located by ES agencies.

OMB Says:

- "Job Corps job placement is only marginally better than that of the CETA Public Service Employment program. CETA was a generally recognized failure and was terminated with bipartisan support."

The facts are:

- As indicated above, the placement rate quoted by OMB is, as best, misleading and not meaningful.

- Job Corps is an intensive education and skills training program for disadvantaged youth with no subsidized jobs involved; CETA Public Service Employment provided subsidized employment for an entirely different population. Any comparisons are far fetched and inappropriate.

- Job Corps has been a recognized success and has earned, broad bipartisan support. It is the only employment and training program where graduates have the pride to form an alumni association to help others in need.

OMB Says:

- "Reports of 85-90 percent positive termination rates and statistical studies purporting to demonstrate cost effectiveness of Job Corps border on false and misleading advertisement
    - 85-90 percent positive termination rate is greatly overstated.

      Reported rate counts only those terminees who were "counseled and placed" or "not placed" and ignores the 31 percent of terminees who were not interested enough in a job to seek counseling, were subsequently jailed, or could not be located by surveyors."

The facts are:

- Through 1982, the Employment and Training Reports of the President and Secretary of Labor have reported that approximately 85 percent of terminees available for placement were placed in jobs, the military or further education. The practice of eliminating those not available for placement (e.g., full-time family responsibilities) was discontinued.
- As indicated above, current statistics, which count all terminees contacted, indicate that 79 percent are being placed in jobs or education.
- With regard to corpsmembers "not interested enough in a job to seek counseling" from the Employment Service, Job Corps trains corpsmembers in job search techniques and encourages self-placements efforts. These terminees are not "ignored".
- The assertion regarding corpsmembers being "subsequently jailed" is contrary to all study findings and available evidence; it is not worthy of comment.

OMB Says:

- "Reported rate includes as a positive termination anyone who subsequently reported being employed in school, or in the Armed Forces regardless of whether Job Corps had any effect on their positive outcome. Clearly some terminees would have found jobs, reenrolled in school, or entered military service without the aid of the Job Corps."

The facts are:

- All training programs report the success of their participants upon termination. The question of whether participants would have succeeded on their own is properly the subject of an evaluation study to determine the net impact of a program. The 1982 study by a well respected, independent research organization of Job Corps clearly concludes that the Job Corps program did, in fact, have a positive impact on its trainees and that a carefully-drawn comparison group did not fare as well.

OMB Says:

- "The most recent statistical study acknowledges the softness of its findings by noting that for Job Corps to be considered economically efficient it is necessary to assure that:
  - Job Corps training does not displace others in the job market, and
  - Reductions in crime while participants are in the program must be counted."

The facts are:

- The 1982 study referred to was conducted by Mathematica Policy Research, Inc., an independent, well respected research organization. Researchers followed up on Job Corps terminees for four years and compared their experiences with a carefully drawn comparison group to assess whether Job Corps members fared better and if the cost justified the difference.
- Upon hearing the favorable results, OMB insisted that the Department of Labor engage outside experts to critique the study. These experts concluded:
  - The study "is on the whole reliable and represents the current state of economic and econometric art"
  - The study "demonstrates an exceedingly high level of competence by the evaluators and does not contain any limitations."
- With regard to the OMB contention on the displacement of workers, Mathematica concluded that there is no evidence that Job Corps graduates displace workers to any great extent.
- With regard to reductions in crime, Mathematica concluded that this is a worthwhile benefit since incarceration is a more expensive proposition for our society than the cost of providing education and skills in Job Corps.

- Among the many impressive findings in the Mathematica Study (critically and favorably evaluated by the outside experts at the request of OMB) are:

  1. Benefits vs. Costs

     Job Corps benefits are greater than its costs. Measured is 1977 dollars, Job Corps produces benefits for society of approximately $7,300 per participant as against about $5,000 in costs, or about 45 percent more than the costs.

  2. Stability of Gains

     The overall gains experienced by corpsmembers gradually build up during the initial months out of Job Corps, and then persist fairly stably for most o' the four-year post-program period.

  3. Subgroup Differences

     There is strong evidence that longer study in the program is associated with greater post-program gains. Completers made significantly greater gains than comparable non-participants.

OMB Says:

"Other training programs, such as the Block Grant Training Program under the Job Training Partnership Act (JTPA), can more effectively and more efficiently train youth for jobs.

- Recent JTPA data reveal that:
  - JTPA cost per participant in one-third that of Job Corps'.
  - JTPA cost per job placement is less than one-fifth of Job Corps'."

The facts are:

- JTPA is designed to serve a substantially different population. Recent data shows:

	JTPA	Job Corps
Youth	39%	100%
School Dropout	10%	78%
Minority	46%	73%
Combined youth/minority/dropout	7%	60%

- The "typical" or average Job Corps enrollee is an economically disadvantaged youth, 18 years of age, minority, school dropout, reads at the 6th grade level, has never been employed full-time, comes from either a family receiving public assistance or one earning $5,389 per year, and is in need of intensive services.
- 100 percent of Job Corps enrollees receive basic education and vocational training. Only 53 percent of JTPA youth receive training in the classroom or on the job.
- This is no criticism of JTPA. The comparison made by OMB is an "apple and orange" one. Job Corps complements, not competes with JTPA. Job Corps serves severely disadvantaged youth in need of intensive services. The residential, 24-hour per day aspect of Job Corps offers the opportunity to motivate, influence and guide these youth toward a new direction to become self-sufficient, productive, tax paying citizens. This costs more. The payoff to the country has been well documented and widely recognized.

OMB Says:

- "The relative success of JTPA is largely due to active private business sector involvement."

The facts are:

- OMB seems to have forgotten that Job Corps has the most direct and extensive participation by private business of any training program in the federal government. 77 of 107 Job Corps centers are operated by private companies (e.g., RCA, Singer, Teledyne, ITT) under competitive bids. The remaining 30 centers are Civilian Conservation Centers operated on public lands by the Departments of Agriculture and Interior. Moreover, vocational training on centers, leading to careers in the construction and transportation industries, have long been sponsored by the National Association of Home Builders and national labor unions. Additionally, thousands of volunteers in communities across the country help recruit, screen and provide support services to corpsmembers before they enter Job Corps, while on center and upon their departure. Job Corps, in fact, has epitomized a partnership between the federal government and the private sector for over two decades.

OMB Says:

- "Available evidence suggests that eliminating the Job Corps and transferring responsibility to JTPA will benefit both the taxpayer and youth who are trying to overcome their disadvantages and become permanent members of the workforce."

The facts are:

- Job Corps is one title of the Job Training Partnership Act. Congress recognized the need for a residential program that would take the most severely disadvantaged youth from their disruptive and culturally deprived backgrounds and immerse them in a setting of comprehensive and intensive educational, employment and support services.

- Obviously, this so-called conclusion is not supported by facts or even OMB's "analysis". OMB's real intent is to isolate and attack selected programs in the guise of economic "savings". In the case of Job Corps, this was done without regard to benefit for youth or taxpayers.

Sources: All Job Corps program statistics reported under "The Facts Are..." come from the established Job Corps reporting systems at the U.S. Department of Labor. Post-program outcomes, including the benefit-cost analysis, are documented in A Comparative Evaluation of the Benefits and Costs of Job Corps after Eighteen Months of Post-program Operation, Mathematica Policy Research, Inc., 1982. Note: The Office of Management and Budget does not substantiate its findings.

The Following is a Three-Page Fact Sheet on Job Corps for Your Reference and Use.

FACT SHEET CONCERNING JOB CORPS

- The Job Corps Program has been operating for the past 20 years. It is authorized by the Job Training Partnership Act of 1982 and funded annually by the Congress of the United States. The program is administered by the U.S. Department of Labor, Employment and Training Administration, Office of Job Corps.

- Most Job Corps enrollees need a controlled residential setting with extensive counseling and a separation from high levels of delinquency, broken homes and undesirable peer influences in order to become productive, employable citizens.

- Job Corps provides three meals a day, a homelike residential setting, medical care, competitive avocation and a learning environment.

- Job Corps graduates actually make money for the government because average repayment in taxes is at least 145 percent of investment. The amount of money that turns up in the national economy each year for each dollar invested in Job Corps in the previous year is $1.45.

- The average cost to train a student is $8,620 for 7.8 months at a Job Corps Center.

- JTPA average cost is approximately $5,704 for each slot for an average three- to four-month period, but only provides skills training and serves mostly high school graduates. JTPA normally does not provide remedial education and social skills training, and never provides medical and dental care or the vital residential component found in Job Corps.

- Forty percent of all U.S. unemployed are 16 to 24 years old. Youth unemployment is expected to rise because the percentage of disadvantaged and minority youth is rising as a larger percentage of the total population.

- Over 1 million youth drop out of school every year. Job Corps serves a maximum of 80,000 students per year (40,544 slots). The United States really needs an *expanded* Job Corps, not less slots.

- Job Corps enrollees are both female and male, 16 to 21 years of age, and are unemployed, unskilled and many are nonfunctional readers. Ninety percent of all enrollees are high school dropouts with an average educational reading level of fifth grade or less.

- Job Corps has long opened its doors to refugee enrollees from many countries who need extensive remedial education, cultural training and career training to become productive members of our society (Vietnam, Jamaica, Korea, Laos, Cuba, etc.).
- Hundreds of foster children have no other alternative than to enroll in the Job Corps Program when states release them at age 17 or 18, and they are not prepared to be self-sufficient.
- The key to success of the Job Corps education program is the fact that it combines corrective feedback and learning, organized sequentially in bite-sized pieces that can be absorbed at the student's own pace.
- Job Corps trains the whole person. It does not just provide job skills. The program provides basic education improvement, teaches family training, responsible parenthood, positive social and job responsibilities, proper work attitudes and work ethics.
- Many graduates receive their high school diploma or GED (high school equivalency) certificate while in Job Corps. Many go on to college and graduate successfully.
- A large percentage of Job Corps graduates enter the U.S. military year after year. Most would not have been accepted without their Job Corps training.
- Many Job Corps graduates now successfully operate their own businesses.
- During Fiscal Year 1983 (Sept. 1, 1982, to Aug. 31, 1983), Job Corps placed 50 percent of all enrollees in jobs and an additional 25 percent in further education and the military.
- The average length of stay for Job Corps students is currently 7.8 months.
- U.S. prisons/correctional institutions are overcrowded and cost the taxpayers an average yearly cost of over $21,000 per inmate. In most cases, the inmates are illiterate. Job Corps helps stamp out illiteracy.
- A Job Corps graduate or enrollee is much less likely to commit a crime than the average national citizen aged 16 to 21. Job Corps certainly significantly reduces the number of our nation's youth being incarcerated and using drugs (study by Mathematica Policy Research, Inc.).
- Job Corps programs are closely audited, financially and programmatically.
- Who are the best recruiters for Job Corps enrollees? The brothers, sisters, relatives and friends of successful Job Corps graduates are today's role models to our enrollees.

- Job Corps has proven to be the most successful program in raising reading levels. Gordon Belin of Ford Foundation says, "The Job Corps individually based competency education has raised reading levels by 1.5 grades for every 90 hours of instruction."

- Evelyn Ganzlass, National Governor's Association, says, "Studies show the most disadvantaged tend to make the greatest improvements when given basic reading instruction in programs like Job Corps."

- Job Corps enrollees *volunteer* for the program and make a commitment to succeed. It is not a means of confinement or a correctional institution.

- Job Corps is the only successful program for hard-core unemployed youth.

- Almost 2 million youth have been trained in Job Corps and are now productive, taxpaying citizens.

- Job Corps works—and so do its graduates.

Job Corps

Senator **Quayle**. Finally, now Richard Monroe.

Mr. **Monroe**. Senator, I'm on the board of directors of the Indiana Nuclear Weapons Freeze Campaign, and Holy Cross Brother Bill Muse, who is the State coordinator, was out of Indianapolis when you were there, so he asked me to deliver this letter for him, which I would like to do. I also have a statement from the Southern Indiana Peacemakers, a local group, that I would like to deliver to you, if you give me 5 minutes.

Senator **Quayle**. Yes; there's your light right there, can you see it. It's green, you'd better go.

STATEMENT OF RICHARD P. MONROE, JR., SOUTHERN INDIANA PEACEMAKERS, NEW ALBANY, IN

Mr. **Monroe**. We would like to thank you for coming to New Albany and affording us this opportunity to discuss these most serious issues. We assume that you are genuinely interested in receiving grassroots input, and we assure you of our sincerity.

DECREASE IN MILITARY SPENDING CALLED FOR

We feel that any effort to cut the budget must start with the $285.7 billion allocation to the Pentagon. We will not be satisfied with a percentage reduction in an inflated proposed military budget. We are calling for a real decrease in military spending.

The nuclear arms race does not serve the public interests of the people of Indiana, the United States or the world. It does not provide us with security but, in fact, does just the opposite. It has and is serving well the corporate interests of General Dynamics, McDonnell Douglas, Rockwell International, Cummins Engines, and others.

The current policies of power and greed are the major reasons for the failure—our failure—to pursue the biblical injunctions of peace and justice. This obsession with so-called military superiority is draining our society of its best young minds and putting them to work on creations of genocide.

If we truly want peace, we must work for justice. To quote Dr. Martin Luther King, Jr., "Peace is not merely the absence of war, it's the presence of justice and brotherhood."

We are committed to these beliefs and we endorse the Nuclear Weapons Freeze Campaign. We call upon you and your colleagues in the Senate to take the necessary steps to bring about immediate bilateral verifiable agreements to halt the testing, production and deployment of new nuclear weapons systems.

We will not be satisfied with superficial arms negotiations while at the same time the Reagan administration is conducting the biggest military buildup in America's peacetime history.

MORE THAN 34 MILLION PEOPLE LIVING IN POVERTY

There are more than 34 million people living in poverty in America today. It is estimated that 90 percent of the poor are too old or too young to work. Many are disabled or single parents with preschool children.

More than 2 million people are employed full time and yet earn wages below the poverty level. Unskilled laborers continue to pour into the unemployment lines. In the last 3 years, some 3 million manufacturing jobs have been lost to shutdowns. Eight thousand Farmers' Home Administration borrowers lost their farms last year to foreclosure, bankruptcy or voluntary liquidation. One American child in five is poor; for black children, it is one out of two.

We do acknowledge and commend you for your sponsorship of the Job Training Partnership Act. At the same time, we challenge you to deal with the fact that despite the rhetoric, programs designed to help people caught in these situations are being terminated while the Pentagon continues to spend over $30 million of our tax money every day of the week—every hour of every day of the week.

With these facts in mind, we urge you not to remove one child from the school lunch program, remove one student from the Student Loan Program, trim Medicare or Medicaid for the elderly, discontinue the Community Services Program, scrap the Small Business Administration, nor terminate the General Revenue Sharing Program until you can account for policies which in a 3-month period in 1982 allowed $8 billion in cost overruns for the production of five weapons systems. The Pershing II alone had a cost overrun of 93 percent. If you want to trim the budget, we think it is obvious where you need to start.

AMERICANS WANT FREEZE OF NUCLEAR WEAPONS

In closing, we would like to point out that 7 out of 10 Americans want a mutual, verifiable freeze of Soviet and American nuclear weapons. When 70 percent of the American people, living in a democracy, want something and can't get it, something is wrong.

There is enough blame to go around. We, as citizens, are not making ourselves heard; and you and your colleagues, as our representatives in government, are not listening. You are trying to form public policy rather than listen to it, and that's not your function.

The Indiana Nuclear Weapons Freeze Campaign is committed to electing a freeze Senator in 1986. We endorse that goal and will work with them to educate the public on the nuclear issue.

We will have a Senator—Republican or Democrat, that isn't important—who will place the public welfare above that of General Dynamics, McDonnell Douglas, or Rockwell International.

That person could be you. The freeze is not, at heart, a political issue. It is not an issue of interest groups and tradeoffs, but an issue of basing both personal and national security on something other than threats of genocide and suicide.

We urge you, we beg you to be your own man. Be a man of vision and courage. Consider the insanity of the nuclear arms race. Evaluate the mentality and values of a governing body that endorses the production of the neutron bomb, a bomb which kills people but leaves us their buildings. President Reagan has referred to it as "The dreamed-of death ray weapon." We find that mentality frightening.

NUCLEAR WAR IS UNWINNABLE

Adm. Noel Gayler, former commander in chief of the U.S. Pacific Forces and Director of the National Security Agency, is quoted as saying, "Our own best minds have come to the conclusion that nuclear war is unwinnable. It would be folly to assume that the Russians are too dumb not to have reached the same judgment."

I thank you for your time, Senator, and I hope you consider our proposals.

Senator QUAYLE. Thank you very much.

I also agree that nuclear war is unwinnable, and I think that our challenge is to prevent it and to have a policy of deterrence so no one would even think of it. I know that the policy of this administration is not a first strike, policy. It never will be, nor has it ever been.

PEOPLE WANT BALANCED APPROACH TO DEFICIT REDUCTION

I can only say that as we proceed down this road of deficit reduction package that the approach that I will be taking, I think the approach that the people here are talking about, the great majority of the witnesses, is that they want a balanced approach, they want something that is going to be across the board, they want fairness and equity.

We have certain responsibilities that we have to provide for. One responsibility is national security, preservation of our freedoms that we have in this country, protection and defense of our shores. Another responsibility we have is to promote the general welfare of our community.

I can only assure you that the people's interests and the people of this country's interests will be certainly in my heart as we go through this discussion. That's one of the reasons that I had these hearings here today, to try to gather input and listen to the concerns of the people.

I appreciate your concerns. I understand your sincerity, and at times I think that reasonable people may have different approaches. That's the greatness of our society, to be able to sit down and have this discussion in our representative democracy.

I will place in the record the material that you provided, Mr. Monroe, from Mr. Morrison on the "New Age."

I thank each and every one of the witnesses, and I'll go on to listen to the Job Corps individual at Richmond. So I don't miss him, I must adjourn.

[Whereupon, at 10:43 a.m., the hearing was concluded.]

[The prepared material of Mr. Morrison follows:]

Contact Mark Stein, 347-2098
or George Morrison, 738-8039

NEW CITIZENS GROUP SEEKS TO CHANGE U.S. POLICIES

Many citizens in Southern Indiana and Kentucky oppose the current military build-up by the U.S. and are wary of its potentially catastrophic effects. Many want to expand the use of environmentally safe technologies for providing energy, transportation and growth. They resent the exploitation of emotions by politicians who bombard the public with half truths designed to rationalize obosolete policies.

Until now, such progressive-minded people in the area have had no outlet through which they can pool their energies and work for change. Those who seek to restructure America's political institutions need no longer be merely spectators in this region.

The time has come for a more enlightened approach to the formation of public policies--domestic and foreign. To bring about this change, a few citizens have formed "The Coalition for a New Age."

The purposes of this organization include:

(1) To serve as a unique opportunity for people who are not currently influential in the political process--minorities, women, youth, the politically disillusioned--to have a hand in the formation of public policy.

(2) To promote programs and to support political candidates whose ideas are compatible with the ideas embodied in the concept of a "New Age."

(3) To communicate with elected representatives in all levels of government, and with the larger community, to share our ideas with officials and citizens.

(4) To be instrumental in changing the direction of the American political system and its institutions.

The Coalition for a New Age exists to research policy areas and to issue position papers on issues. The coalition seeks to raise the level of information about national and world issues and to maintain dialouges with elected officials. The founders envision members forming committees to research policy areas they are most interested in, then recommending positions to the group as a whole.

Programs to be presented at meetings will allow leaders and activists to speak to coalition members. The group will rely on devotion and individual initiative, rathar than discipline or work quotas, to insure it succedes.

The Coalition for a New Age is still charting its course. It welcomes new members and invites suggestions for policies and tactics. Each person who joins changes the group by adding his own views and enthusiasm.

FOR THE SENATE BUDGET HEARING--Submitted for the record by the Coalition for a New Age, a citizens group in Southern Indiana

To overcome the federal deficit, logic dictates that Congress attack what caused the vast red ink in the first place. The Reagan Administration seeks to reduce domestic programs through reductions in their growth, boost military spending and maintain tax reductions secured in 1981.

Yet that is precisely the formula enacted in 1981 and which caused the federal deficit to skyrocket. Why repeat that pattern in an effort to cut deficits? Briefly, Congress in 1981, doing exactly as the president pleaded with it to do:

*Passed a 30 percent income tax cut aimed almost entirely at the rich.

*Increased the military budget from the 1980 level of $136 billion to $187 billion by 1982.

*Reduced domestic programs for poor and middle class people, resulting in 1 million Americans loosing their food stamps, school lunch appropriations being reduced by $457 million, and drastic cuts in housing, health care and nutrition programs for the poor.

The effects of the Reagan tax and budget programs were exactly what critics warned they would be. Otherwise, we would not be struggling with a $200 billion deficit. The White House continues to insist that the mammoth deficits are not its fault, despite the fact that the taxation and spending programs in effect now are exactly what this administration wanted.

The Coalition for a New Age submits that the 1986 budget proposed by the Reagan Administration is not designed to combat deficits, but is an attempt to achieve social aims long held by the right wing of the Republican Party. Even the proponents of this "deficit cutting" budget concede it will result in deficits of $180 billion--just about the level endured for the last two years.

The effect of the proposed cuts on social and municipal services has already been demonstrated to Sen. Quayle by many officials and social workers who have testified. We echo Evansville Mayor Michael Vandeveer that the cuts would devastate Indiana cities already constrained by property tax controls.

Further, we point out that reductions in the college loan program will force 500,000 students out of eligibility, threatening the nation's research and technological stature. Elimination of mass transit subsidies will force fare hikes that could hurt the nation's goal of avoiding another

-continued-

oil crisis (experts are assured oil prices will climb later in this decade).

Increases in military spending in the proposed budget are neither prudent nor justified. The Chicago Tribune is correct in its editorial assertion that:

"To a dangerous degree, the ever-expanding American defense budget is driven by purely domestic influences--corporate and congressional greed and ambition and incestuous relationships in what President Eisenhower called the 'military-industrial complex.'"

The Coalition for a New Age calls for the Dept. of Defense to eliminate waste and graft by freeing its defense science boards of control by industry executives. By dominating these panels, corporations are able to essentially decide what new systems are needed.

This move, and a halt to the military build-up underway since 1981--a build-up generally though by experts to be progressing too rapidly to increase American security--will allow cuts in the defense budget that will help eliminate the deficit without hurting powerless people or U.S. national security.

The Coalition for a New Age also implores Congress to attack the deficit by closing unproductive tax shelters that deprive the treasury of $24 billion annually, while encouraging wasteful investment and the neglect of industries needing upgrading.

Many of the deductions, exemptions and exclusions that prevent about $100 billion in taxes from being collected should also be closed. This would put the burden of curing the deficit on higher income earners who can bear it, and who have been systematically reducing their share of taxes paid over the last few decades.

Whatever spending priorities are eventually passed, the Coalition for a New Age demands that Congress address the deficit problem by attacking what caused the deficit--which is in our view excessive tax reductions for the rich and an unjustified and wreckless military build-up.

Prepared by members of
the Coalition for a New Age,
Mark Stein and George Morrison,
founders

ECONOMIC IMPACT OF THE FY 1986 BUDGET PROPOSALS ON THE STATE OF INDIANA

THURSDAY, FEBRUARY 14, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Fort Wayne, IN.

The committee met, at 9:06 a.m., in room 353, Federal Building, Fort Wayne, IN, Hon. Dan Quayle presiding.

Present: Senator Quayle.

Staff present: John Palffy, chief economist; and Greg Zoeller, legislative assistant.

OPENING STATEMENT OF SENATOR QUAYLE

Senator QUAYLE. I will go ahead and call the hearing to order. Fortunately, given the weather, we only have one cancellation. Diann Shapell, who is the executive director of the Northeast Area Council on Aging, is not going to be able to be with us today.

This is the fourth day of hearings that we are having around the State. We have been in Indianapolis, Terre Haute, Evansville, New Albany, and Jeffersonville.

We were supposed to have gone to Richmond but the courthouse and the other offices were closed there yesterday. We will be on to South Bend later. Basically, you might want to say this is representative democracy at work. I think the participants and the communities will have a better understanding of the reductions and cuts that are going to be in this year's budgets. I think we need to have to have a good feeling of what those budget cuts mean for Indiana and what it means for Fort Wayne and the surrounding counties here.

There is no doubt about it, that we have a huge problem out there in Washington with the deficits ranging as high as $200 billion.

DEFICIT MUST BE REDUCED THROUGH SPENDING RESTRAINT

Everyone is focusing on the deficit. I think reasonable men and women can disagree on how to reduce the deficit, but the bottom line is that it has to be reduced primarily through spending restraint.

As far as I am concerned, I think the testimony will bear out again today, that spending reductions must be fair and equitable, across the board; defense as well as nondefense.

But I think as far as I am concerned, in hearing the testimony—anyone who wants to offer up any "sacred cows" that they want to see put on the chopping block, we will be glad to take those along with any other suggestions. We have had in the last few days a lot of interesting testimony. We have not had a lot of volunteers; recipients of particular programs saying that they can do without that program. It is usually someone else's program that can be cut easier than their own.

But it is an educational experience, not only for myself, but hopefully, for the people of Indiana as well, because I think as you look at the Federal resource allocation, no matter what happens this year or next year, that the fiscal problem is going to be there.

It is going to be, in my opinion, a protracted problem, and one that we are not going to just deal with in 1985. We will probably be dealing with it for the remainder of this decade

And the Federal resources and the moneys simply are not going to be there. I would rather be having hearings on how we can spend it, quite frankly, and call everybody together and say, "Come up with your best ideas." I know there would be a lot of good ideas out there on how can we spend some additional moneys but we do not have it.

Our first witness this morning is the Honorable Mayor Win Moses. If he would please come forward and give his testimony at his pleasure. Welcome to our hearings. I am glad to be back here and look forward to your testimony, and a philosophical discussion on how we are going to maintain that Federal-local partnership that we have had over the years. Go ahead and proceed.

STATEMENT OF HON. WIN MOSES, JR., MAYOR, FORT WAYNE, IN

Mayor MOSES. Well, you have hit exactly what I wanted to talk about, and that is that Federal-local partnership, and the impact of what the proposed budget cuts will be on city government, particularly Fort Wayne. But generally, almost all American cities are going to experience extreme difficulty.

Let me give you just our particular example, and those numbers are stark, and I want you to bear in mind these individual examples as you begin to cut, because your choice is where to cut.

Is it defense? Is it nondefense? Is it some entitlement program, or wherever? And you may not be fully aware of what has been accomplished, in part with Federal dollars, probably impossible without those in Fort Wayne.

CRUMBLING DISTRICTS TURNED TO THRIVING AREAS

We have received over the last several years approximately $15 million. With that, we have built the ITT Industrial Park. Without it, it would be an overgrown wheat field, and we would have nothing to offer in the area of applied technology or high tech in northeast Indiana.

The civic center parking garage which is in part the basis of our downtown revitalization would be an empty lot. The hotel that is presently going up there, that will employ dozens of people and revitalize the activity and make it come alive at night, finally, and throughout the days, would be nothing at all. It would not exist. Our business prospects, 38 of them in the last year that have come to Fort Wayne, through advertising and through promotions, we have been able to do through our revenue sharing funds.

Without that, we would not have nearly the strength of the economy and the opportunity to attract new businesses, such as the transit mall. And when you were a Congressman here, you probably well remember walking down those curbs and sidewalks, and they were broken and falling apart, and there was no way for us, independently, to resolve that. It would still be on the drawing boards if we had not had some of those Federal moneys, and would not have begun to move our downtown in the direction that it has accomplished.

Broadway, Pontiac, and Wells Streets, streets that you represented and know well, I am sure, were crumbling commercial districts a few years ago.

With our community block grant money, we were able to turn them into thriving areas, certainly much more vital than they have ever been in the last generation.

SAFE HOUSING ENFORCEMENT

Our safe housing enforcement. It used to be called minimum housing. It takes those structures that are in terrible straits, and either tears them down, or gives people the opportunity to fix them up. That would not exist without these Federal dollars. If you cut revenue sharing and some of the other programs, that is exactly what you are cutting, right here in Fort Wayne, IN, on the street. You are removing safe housing enforcement.

Twenty miles of curbs and sidewalks that we repaired. That is over. That is done. They will just continue to crack and crumble unless we raise property taxes, or we are going to have to do with less services.

Our housing projects would be in a complete state of disrepair. We have added 700 people who would have had no homes at all. Twenty-five of our safety employees are police officers and come from Federal revenue sharing. Without that, our streets would be less safe.

Fifteen million dollars over the past few years may seem like a significant number but it is really not. It is a rather small number. And in fact cities, as you are well aware, get a rather small piece of that Federal pie.

When we cut those we are really severing the cords of a very critical operation. All of the economic revival of this area has been dependent in large part upon use of those dollars, coupled with the innovativeness and the creativity of Hoosiers and northeast Hoosiers in particular.

Without those dollars, we would not begin to be what is called in the Chicago Tribune the "hot spot" of economic development in the Midwest, not just in Indiana but all over, and we very creatively use those. As you are well aware, we cannot have massive tax heights at the State or local level, and that is basically good. It was put in at the request of the citizens throughout the State. We have a fixed property tax.

So when you cut these city programs, what you are saying is, you are going to do with less services, unless you are saying to the citizens, you should restructure entirely and prepare to have your taxes increased.

Well, Fort Wayne has said many times that is not the direction they want to go in at all. They feel that they send immense amounts of money to Washington, and we do, and get little back.

Now I have seen that argument turned around, where, since Indiana tends to come out nearly dead last in every respect in getting Federal dollars back, would we not be wiser to cut all of these programs, and therefore, Indiana would be comparatively less better off?

Well, I would say this to that argument. It is that the little bit that we do get, we absolutely need. I think that we should be aggressive in Washington to try to get an equal share with other States, whatever those policies are and wherever they are.

"INSURANCE POOR"' POSITION

In conclusion, I would say it in this fashion. The budget appears to ask for a 13-percent increase in defense.

Now we all want a safe country, and State and community, myself included. I almost wonder—and I hesitate to use this example with my good friend from Lincoln Life here—if, in fact we are not almost at a position that used to be called "insurance poor." Excuse me, Ian. Some say that is impossible.

Senator **QUAYLE**. He has the microphone later on today. He will be able to respond to that.

Mayor **MOSES**. But I am not convinced we are not safer, if in fact there is a Pentagon that is buying $600 toilet seats with our money, if we are spending money faster than the Pentagon can utilize it, and the estimates range between $50 and $80 and $200 billion of unexpended moneys at this time. Programs that, in the esteemed Washington Post, are detailed to have been ill thought out, if thought out at all.

That in fact there seems to be very little management of that organization, and if that is the case, and it certainly seems to be, we should not be asked to sacrifice, because there is a certain weakness that occurs in our country too. Cities are come at again and again with this battering ram of cutting us down by reducing the budget, and we are not allowed to provide economic revival, transit, housing, the basic essentials.

But I say that not in the sense, just for the homeless or the poor, or the needy. I say it for the average person, the middle income, that is just trying to make a living here in Fort Wayne. The one that has not had that opportunity with any ease in the past few years because of the pullout of International Harvester, and all that it caused, is finally seeing a turnaround. They want to be able to continue on a path that allows them an opportunity to raise their children well and send them to school, and earn a decent living and provide for their families.

With these cuts for cities proposed, it will make that exceedingly difficult. We will go back to a situation where the only things that cities are able to provide essentially is fire and police.

Sixty percent of our budget comes from that. This is actually going to cut even some of those people. That puts us in a most difficult strait, and as you vote on those things, you should know that when you are voting to cut moneys from the city, that is exactly what you are causing in Fort Wayne, IN, and every neighborhood there.

That is all I have to say.

ECONOMIC GROWTH MUST BE HAD

Senator **Quayle**. Well, let me say that I know that these suggested cuts and reductions, do affect individuals, they do affect cities, and they do affect how we go about doing our business.

The only thing I can say is that as you look at this thing in a macrosense, is that you have got a tremendous hemmorhage out there with the Federal deficit, around $200 billion, and people are going to be hurt, even more so in the long run, if we do not have economic growth. That is what the whole objective is: jobs and opportunities, primarily in the private sector.

It has been a partnership effort with you, public officials, and the private sector. We have got to have that economic growth, and we have got to have the interest rates down. We have got to have inflation in check. And almost every economist, and I come from that school of thought, feels that in the long term, these deficits are very much of a menacing factor and a real impediment to seeing the economy continue to grow.

So we have got to focus on that. And the idea—and I think that, you know, whether it is a $600 toilet seat or a $7,000 coffeemaker—that that coffeemaker may be more survivable than the plane in which it was to fly. In other words, if the plane would crash, the pilots would be dead, the plane would be of no use, but the coffeemaker would survive. Those were regulations, design controls that were instituted by the Department of Defense. Nonsense. There are a lot of management improvements that can, in fact, be taken and the procurement aspect is one of the things we are interested in, and we can get those efficiencies.

But as we do get the efficiencies and savings in defense, it is really going to go to offset the budget deficit. I do not think that you are just going to take defense, and trade off savings into nondefense. As we find savings, whether it is in defense or anywhere else, it has got to go to apply to that deficit.

Mayor **Moses**. I could not agree more.

LARGE SCALE TAX INCREASES NOT LIKELY

Senator **Quayle**. As you pointed out, if in fact the cuts would come, and you would be forced either to terminate services or raise taxes at the local level. It is rather well resolved that we are simply not going to raise taxes in a large way at the Federal level.

There may be, down at the end of this road some revenue adjustments, but I do not see any across-the-board large scale tax increase, because of what the President said. I think that the American public ratified that they want to see spending cuts. I do not think there is any way we are going to pull the plug. I mean, this idea that, you know, we just simply are not going to pull the plug on these programs.

But I also think, as we look at this thing, that there is going to be probably a less of a dependency on the Federal Government. I mean, I have had testimony in the last 4 days, people come in, and the most subjective request has been for a freeze, just go ahead and freeze the spending. We can get by with that. We would like to have an increase—you know—"There are some programs I would like to increase."

The Job Training Partnership Act, for example. I would like to spend more money on that. I think it has been a workable program, not only here but statewide, and nationwide. But the problem is that we cannot do it. The most objective thing is a freeze.

But I think as we look at this thing, we have got to sort of put our ingenuity together, and as I said, it would be a lot easier to come and talk about having new programs.

What about the idea if we would take—I just throw this out for your comments. If we would take the main programs that you receive right now—you take Federal revenue sharing, UDAG, EDA, community development block grant, and say that we would block grant those. Have, you know, say, a huge block grant to the States and local communities, with a reduction in overall funds. But it would not have specific strings attached, so you could use it, if you wanted, to go out and have economic development, if you need it, or to provide for some essential services.

From your perspective, is that a possible way to go, to get more efficiency and more "bang for the buck" in some of the programs that we have?

SUBSTANTIAL REDUCTIONS HAVE BEEN MADE

Mayor **Moses**. Here is the way I view that. From 1980 through 1984, cities accepted something like 62 percent of all the Federal cutbacks in programs already. We have been required, as a community, to make substantial reductions. We have reorganized, we have cut back, and we have eliminated programs.

We have done every savings that you can managerially find. Indiana University wrote up Fort Wayne as the city that is the most efficient in the Midwest, from big ones, Chicago, Detroit, out to other sized, Evansville, Rockport, and the rest.

If, when you are saying to me you want to combine all these into a single fund, that that fund is substantially smaller than the total dollars received by their individual additions now, I would say to you you are still talking about essentially the same reduction in services. That every one of these programs that we use now is at a critical level. When we talk about UDAG's, we use it for economic development. Less of dollars available for economic development is not going to help us more. It is going to help us less. We may use it in a different fashion, but there is not any question that we have maximized that UDAG, would probably use something very similar to us, and if you give us less it is going to hurt more.

The same thing is true with block grants. I mean, if you cut out our funding, that means that the Pontiacs and the Wells and the Ruddesolls, and the rest, are going to get less in some fashion.

Now you may say, "Well, as mayor, do you have other priorities that you could shift out of these categorical into broader?" The answer, Senator, is no. We are at a critical stage in every instance; we are are taking the pulse in all of these cases.

What this budget does is truly just a battering ram that knocks pieces out, and just tears apart cities in every respect. And my argument to you is going to be essentially the same as the U.S. Conference of Mayors.

A freeze is something that we think is fair and equitable. It is across the board, everybody is treated the same, and there are ways to deal with that. That when you talk about cutting cities, and 13 percent increases in defense, I am not sure people are appreciative of that. And I know you do not want to talk about the individual instances of excesses, but in fact people have perceptions that that is extreme. Beyond that, I do not think people understand all of the new programs that seem to spring up like topsy every day. I think people feel that although yes, we want to be safe, let us do it prudently, and we are not sure that that is prudent.

With a 13-percent increase on top of the additional ones that we have had over the past 4 years, besides all the cuts that cities have had to take, and what are now being asked to give up is not fair, and I am talking in reference to the average citizen.

FREEZE WOULD BE APPROPRIATE

A freeze is a very appropriate way to compromise this, and we could live with that. To answer your question, if your pulling them all together means that we will be better off, the answer is essentially no. I would like more leeway with those things, but I am not convinced that in Fort Wayne, where these programs are used for basic economic development, basic housing, basic transportation, basic sewers, water and utility lines, that there would be a significant difference.

We are now faced with—let me just give you one example. We are trying to get sewers out to General Motors right now. Our one big coup that has come. And it was done in a partnership with the public, the private, the Federal and the State, and the local. I went to Washington last week.

EPA people came out, four abreast, shoulder to shoulder, and said specifically, "Our job is to tell you you do not get any money and we are not going to give you any money unless you can prove it that you are legal, can wrench it from our hands, you are not going to get it."

Well, as I came back and I read the newspaper, they had a compilation of all the budget cuts, and it showed in sewers a big zero, that there will not be any more appropriated for new projects.

Well, we are at capacity. Once General Motors is in and we have the suppliers in, we are going to have to expand our water and sewer. And without that, we are not going to have any economic development.

In the past, we have accepted the regional collection. I mean, we take it in not just from Fort Wayne. We take it in from all over northeast Indiana.

Now you are saying to us, "You are done. I am sorry. It is over. If you folks want to expand economically in northeast Indiana, you are going to have to raise your sewer rates, you are going to have to do all kinds of other taxing opportunities, and that is all it is." Well, what you are doing is capping our opportunity. You are not expanding it, when that attitude is taken.

Senator **Quayle**. Let me say in conclusion, that again, as we go down this road, there is not going to be, nor should there be, any radical elimination of programs, and pulling the plug today, and say, "So long." That partnership is going to continue.

KEEP REVENUE SHARING

Mayor **Moses**. One thing that I need to emphasize to you, and that specifically is revenue sharing. It is designed in this budget, and I am not sure your time period is such that it would get accomplished, to be cut in fiscal year 1986.

Our budgets are established on a calendar year. If in fact it is cut in September 1985, we have already budgeted in that balance of the year in our budget, and it would be a dramatic reduction in services.

We have to fire public safety employees. So I would urge you at a minimum to phase that out if that is what your intention is, but at a maximum I would urge you not to take it at all.

Senator **Quayle**. OK. What have you budgeted for the next year? What are you anticipating in revenue-sharing moneys? Are you expecting about the same? What do you have planned for your calendar year 1986?

Mayor **Moses**. In calendar year 1986——

Senator **Quayle**. You are on calendar year?

Mayor **Moses**. We are on calendar year. Our 1986 calendar year will be budgeted in July 1985. So we have time at that point to deal with all of the priorities that are available to us. My point is that we have already budgeted——

Senator **Quayle**. I understand. What I am trying to get out of you—and maybe you do not want to say—I am trying to get out what your expectation is.

Mayor **Moses**. Oh, on revenue sharing?

Senator **Quayle**. On revenue sharing. And obviously, you are going to say it is too early to tell because you do not know exactly what the Congress is going to do, which I do not blame you, because that is going to be one of the major battles back in Washington.

But I think that——

Mayor **Moses**. My answer essentially is this.

Senator **Quayle** [continuing]. I guess the expectation would be a freeze at the most, and maybe a modest reduction would——

Mayor **Moses**. In talking to mayors all over the country, they are planning on a continuation of some nature, that it is impossible for any of us to determine what proportion we might end up with, and we cannot plan, and I have heard no discussion by any mayor saying, "Well, if we get 10 percent, or if we get 90 percent, here is what we are going to do", because we do not know. I mean this budget is so stark, that it is impossible to predict. Revenue sharing though is the one area that epitomizes the different methods of fund raising. If you are talking about raising taxes in Fort Wayne, you are talking about property taxes, the most regressive kind. Everybody pays. If they lose money as a business, if they are poor, if they have had an illness, their property taxes go up, unlike the income tax of the Federal Government, and that was the purpose behind then President Nixon's introduction of it, and passage of it. There is an inherent fairness in revenue sharing that is not there in property taxes.

REVENUE ADJUSTMENTS

Senator **Quayle**. If after it is all said and done, and the Congress goes through all the commotions and gyrations, and makes adjustments here and there, and they still come up with a, fairly large deficit, do you think that the people of Fort Wayne would be willing to say, "OK. Keep these essential services including national defense. We will go through and make the cuts there. See what kinds of reductions and modifications you can get in the non-defense." And then say, "Well, we have gone as far as we can, and now it is time to look at the revenue side."

Do you think that the people would be willing to accept a revenue adjustment much easier from, say, Washington, than it would be a revenue adjustment here, if that is what the end result is?

Mayor **Moses**. When you talk about a revenue adjustment from Washington versus here, you need to understand, the people on the streets do not understand much of that difference.

They will just note there are fewer police officers or that there are less recreational opportunities, and they are going to resent that.

I think my answer to you would be, is, Fort Wayne citizens, I am convinced, are very ready to accept their fair share of whatever national reduction is necessary here. But you have got a long way to go to convince them that things are being done fairly at this point, that the increase in the military, in particular, does not seem to prove fairness.

That the management, clearly, seems to have a great deal of opportunity for improvement. That the Grace Commission, for whatever strengths or weaknesses it had, clearly pointed out a substantial number of areas that you can look to, to make changes, and whether it be—well, you are probably more familiar with that than anybody else in this room.

They know all that. I mean, they read these things, and then when they understand all that is going on, and you turn around and say, "I am sorry. We are not going to be able to help you any longer with sewer lines, or water lines, or economic development", they feel kind of isolated, they feel cut adrift, and that is what, in part, is happening.

And I think that is true all over the State of Indiana.

REDUCTIONS MUST BE FAIR AND EQUITABLE

Senator **Quayle**. I think you say that the case has not been made that it is going to be, that these reductions are going to be fair and equitable.

I think it is incumbent upon us to make sure that they are fair and equitable, and that is why I think it must be across the board, and if it comes in in an uneven hand, that is not fair, and that is not right.

And I think that the people of Fort Wayne, and everywhere else would resent that, and I would, too, individually. The Grace Commission report is an interesting study and there are some good things in there.

We did pass one thing. You will be shocked at this. Or maybe you will not be.

Mayor MOSES. Nothing shocks me anymore.

Senator QUAYLE. Nothing shocks you anymore? The Federal Government was losing $100 million a year because they were not depositing their checks in a timely fashion, and the Grace Commission recommended that if they would just deposit checks within a period of 72 hours, that they could save $100 million a year.

Now I can imagine that when the checks come into your office, these things are deposited. Well, out there, they were sitting there, and they can save $100 million a year, so we passed a law, and the Grace Commission got through.

That was one recommendation that did get through, and over a 10-year period of time, will save $1 billion. Another recommendation was to make the people from California and Arizona pay their fair share on their utility costs and electricity rate particularly from the Hoover Dam.

The Grace Commission said no more subsidies there. A good idea. It was taken to the floor, and unfortunately, those of us from the Midwest and the Northeast got rolled by the Western Senators. They beat us 49 to 46, approximately. A tremendous savings—but Congress wouldn't do it.

So there are things in Grace, but the problem is, that sometimes, in Congress, to get these things through, you get these parochial interests. You mentioned Indiana's shortfall in the area of porke. We used to rank 49th out of 50 States but we have made progress Now, we're 46th.

The Grace Commission has come out and made these recommendations but we simply have not been able to get it through.

That does not mean we cannot quit trying but those are just a couple of the examples. Well, I thank you for your testimony and I can assure you that I appreciate it, and I will particularly make a note on this calendar year item, because I presume other cities are in that same——

Mayor MOSES. Every city in Indiana.

Senator QUAYLE. Yes, every city, at least in Indiana.

Mayor MOSES. Structural mechanical difficulty. In conclusion, in your statement, you talked about the only way to go is cuts. Remember the individual citizen on the sidewalk in Fort Wayne when you talk about cuts, because that is what it is.

CUTS MUST BE MADE ACROSS THE BOARD

Senator QUAYLE. You do agree that we should focus on spending cuts, do you not?

Mayor MOSES. I would focus on two areas, and, your comments on the Grace Commission not only did not shock me, they dismayed me again. I am convinced there is substantial management waste in the Federal government and that it has got to be ferreted out. The Grace Commission only touches the surface of it, and you said you got one and you lost the other one.

Now people are not going to feel comfortable about this until they feel that there is tight management, that someone is truly in charge of managing it. Beyond that, I do not think that we should talk about substantial tax increase. I do not think that at all. That as we propose dealing with reductions, that it be done in an equal and fair way, and the Senate and the administration have exempted so many areas.

You said, "Well, we are not going to cut defense. We are not going to deal with entitlement programs. We cannot deal with the interest on the national debt."

Senator **QUAYLE**. You have to pay the interest on the national debt. That is one you cannot deal with. Everything else you can deal with.

Mayor **MOSES**. Well, that is exactly the point I was coming to. I would urge you to keep a very open mind as you go through this, because what you have done is, limited yourself to this small itty-bitty piece of pie, that if you cut out everything, absolutely everything that is not included in there, including the President's salary, you would still have a deficit.

Senator **QUAYLE**. Well, you can cut out—talking about military—you can cut out all the procurement, all of it, just not buy anything, and you would cut the deficit in half, and no one's suggesting that, nor should they suggest that. It shows you the problems.

But I think you are right and that is why I want to make sure that we keep our eye on the spending side of this ledger as long as we can. We ought to look at the spending cuts, get more management—there are management efficiencies, yes. But I mean, you must look at the hardcore reality You must sit down and say, "OK. We have to make some of these reductions and they have to be across the board."

And I think that is what we are trying to get some input on and——

Mayor **MOSES**. Reductions or lack of increases?

Senator **QUAYLE**. Reductions or lack of increases. Restrain growth. You can restrain growth——

Mayor **MOSES**. Of Federal spending.

Senator **QUAYLE**. Particularly in the outyears, and I think that is what has happened in some of these programs that may be kept along if we keep the freeze mentality, so to speak. Five or six years from now, by attrition, they are going to be so small or miniscule, let us say, Well, OK, we will get a priority thing. The important ones will stay and maybe we can weed out some of the ones that were put in.

I mean they were put in for good reasons. This is not to say that they are bad programs and they do not serve a purpose. The thing is, we cannot afford—we have deficits to share out there and not a lot of revenues, that's the bottomline.

Mayor **MOSES**. I am not at all sure that we share that end result we would like to see here, but I would like to thank you for having the hearings. I very much appreciate having the opportunity to be able to participate.

Senator **Quayle**. Thank you.

I guess we will just go down the list. Next on my list is Mr. Edwin Metcalfe—I am going to call three or four together here—Mr. Arthur Liley, Mr. Jim Smith, and Mr. Wally Sheffel. OK. Mr. Metcalfe, you are first on my list.

STATEMENT OF EDWIN C. METCALFE, VICE PRESIDENT AND GENERAL MANAGER, WPTA-TV, PULITZER BROADCASTING, FORT WAYNE, IN

Mr. **Metcalfe**. Good morning, Senator Quayle, and members of your staff. My name is Edwin C. Metcalfe, vice president and general manager of WPTA-TV, a Putlizer Broadcasting Co. station located here, in Fort Wayne. I am also the current president of the Indiana Broadcasters Association.

As a major communicator in this area, I welcome this opportunity to present views on the President's fiscal year 1985 budget, together with recommendations for holding the line on Government spending, and hopefully reducing the projected deficits facing our Nation.

The present administration has been calling for certain changes in Federal spending practices for some time now, and I believe the legislative branch of our Government should take immediate and direct action to cooperate in effecting these recommendations from the Executive offices.

IMPLEMENT 1-YEAR FREEZE ON SPENDING

Since it is likely many of these recommendations will have an impact upon certain services and agencies, we respectfully but strongly recommend, that a 1-year freeze on Federal spending be implemented in the next fiscal year.

I believe this will allow everyone involved sufficient time to develop alternative plans for the providing of services and programs considered so important to the majority of citizens in this Nation.

Restraint on spending must, however, be shared by everyone with all programs, and recipients of services sharing on an equal basis the burden of reduced spending and funding.

Whenever a business faces similar problems, a freeze on spending is not only an acceptable alternative, it is generally the first and most important directive issued by the company's executive office.

Our Government should react no less responsibly to the financial problems facing it. It has been suggested from several quarters, that civilian and military pay in the Government should be frozen at fiscal year 1985 levels for fiscal year 1986.

I concur with this suggestion and would further recommend that Federal pension programs be examined, and steps be taken to bring them in line with prevailing private sector programs.

It is my understanding that something like $58.1 billion could be saved over a 3-year period. And as I further understand it, military personnel can now retire with full benefits after 20 years of service, regardless of age.

It is my further understanding that civil service employees may retire with full benefits at age 60 after 20 years of service, but may retire earlier, at age 55, with 30 years of service.

There would appear to be an inequity between these two categories of Federal employment, that is, military versus civil service.

SUBSIDIZING OF MASS TRANSIT SYSTEMS

Turning to another area important to local cities and towns is the subsidizing of mass transit systems. While I may favor the ultimate goal of having these systems stand alone, and on their own, I believe, in reality, and would suggest to this committee, that this goal would be unobtainable.

However, I do believe that management techniques can be employed, which will, in a reasonable period of time, reduce reliance on Federal funding of these systems.

Since funding is currently shared by Federal and State Governments, together with local taxes, it may be necessary, in time, for the State and local governments to assume a greater share of the subsidy.

I would suggest, by the way, as a sidebar of this, that there could be a 3- to 5-year phasedown in Federal subsidy, not unlike a local program we have here. Uncontrolled spending is the curse of any business, private or Government. It is shameful in Government, a fact recognized throughout our Nation.

Hardly a day goes by, that our news department does not report on some wasteful project engaged in by a government agency. I firmly believe our President has recognized the frailty of our system of government, and with the help of the Congress will take direct action to curtail or eliminate waste in our Government.

There is no secret that the American people prefer spending restraint to tax increases as the way to reduce the deficit.

I think it is most important that Congress recognize this message from the people and take the necessary steps to implement the people's wishes. Thank you.

Senator QUAYLE. Thank you very much. Mr. Smith.

STATEMENT OF JAMES T. SMITH, CHAIRMAN, MAGNAVOX GOVERNMENT & INDUSTRIAL ELECTRONICS CO., FORT WAYNE, IN

Mr. SMITH. Thank you, Senator. It is a pleasure to be asked to testify here this morning. I think some of my testimony might be contrary to some of the comments made here, since I am president of the board, and president and chief executive officer of the Magnavox Government & Industrial Electronics Co.

We have some 5,000 employees in Fort Wayne, primarily in the defense buiness. However, I must admit that we all are very concerned about the high deficit figures. However, this total economic picture is a little above my comprehension. The effect of foreign investment in the United States has completely distorted the total picture. The expansion of the economy has continued in spite of trade deficits, high intereest rates, and the budget deficit. Can it continue?

Well, Paul Volcker says no, and I think everyone is very much in agreement. However, if foreign investment continues as strong as it is today, it probably will continue to expand as it has in the last year.

Foreign investment, however, causes other problems. The Magnavox export business and satellite navigation equipment has practically been wiped out due to the value of the dollar overseas.

TAX CODE NEEDS OVERHAULING

Should we have a tax increase? I along with my associates believe that a tax increase should be used only as a last resort.

However, I do believe the Tax Code needs to be overhauled to ensure that everyone pays some tax, and not just compensated wage earners.

Whether or not this would be a flat tax, or an overhaul of the present Tax Code, it must be viewed as fair to all taxpayers.

Proposals have been made to freeze Government spending at the current levels with no allowance for inflation. Such a proposal may be a temporary expedient to reduce the budget in the near term, but it does not address the long-range problem of managing our economy.

Congress must demonstrate the ability to face up to the tough issues that exist and not put them off for next year. Reduction of elimination of COLA's must be addressed if we are to contain the growth in our social programs. The Defense budget, however, should be addressed on its own merits.

I would like to comment on many of the positive aspects of our experience. I do not believe that any of us in the defense business in Fort Wayne have sufficient knowledge of the threat to make a decision to freeze the defense budget.

The total defense posture, relative to the threat, that hopefully has bipartisan agreement, has been analyzed in great depth by both the Defense Department and the Congress through many of the consulting organizations that you use.

The final scenario that has been agreed to by the responsible people involved is then broken down to determine the size of these forces, the manpower, and eventually the equipment required.

The strategic forces which addressed the present MX discussion is an area that I personally have very little knowledge. As such, I believe that the relation of the threat, and the disarmament meetings is best judged by those people in the decision process. These include the Armed Services Committees of both the House and Senate, the Disarmament Committee members, advisors such as Paul Nitze, the Defense Department itself, with the final arbitrator being the President.

I think the public in general, including uninformed individuals like myself, should not get in the middle of that process.

CONVENTIONAL FORCES NOT ADEQUATELY EQUIPPED

On the subject of tactical forces, however, we have a great deal of information that says that our conventional forces are not adequately equipped at this time. They are, however, much better off than they were 4 or 5 years ago.

There remains a great deal to be done to bring them up to the state of readiness required. Reducing the defense budget should be carefully analyzed in order not to stop this improvement process.

Your Procurement ad-hoc committee is addressing many areas where savings can be made in the defense budget and I would like to cite some of our experience at Magnavox as a point of reference to some of your activities.

Multiyear procurements are once again being considered as a way to save money and to stabilize some of the production of military programs. Magnavox has had a few multiyear procurements, and our experience fully justifies those expectations. It is difficult to quantify some of the savings involved but they amount to at least 15 percent of the program plus all the intangible administrative benefits.

NEW TECHNOLOGY INSERTION

Another subject is new technology insertion in to programs such as programs that we have, like the AQA sub and the ARC-164 radio system.

It is one that we have been selling for several years as the most cost-effective way of running such activities. Continuous production and technology insertion to contain cost is a much better way to save defense dollars than trying to compete with old equipment.

Competition sounds like a panacea and there are obvious savings that can be realized. However, it is often a big mistake to recompete programs during the production cycle. Cost savings through automation and quality improvement are also being addressed by both defense and contractors. As some measure of success in our efforts at Magnavox in achieving quality, it should be noted that Magnavox, here, in Fort Wayne, was the first industry recipient of the Defense Department Quality Excellent Program Award in 1983.

There are additional examples of savings that are targeted, that would allow a defense budget reduction with little or no impact. Requirements for documentation, reports, and data are costly and of very questionable utility. Elimination of procurement policies and practices result in long, drawn out negotiations, multiple submissions of documents, and many nonproductive manhours. The subject of excessive specifications is an obvious one.

An extension of the service of the military that was noted, I think could be carried out to some degree, and without losing the people involved.

Universal and national service. A 2-year service for all individuals, for a universal national service, is something that should be addressed.

I think most of the countries in Europe have come to this. It could be in teaching. It could be in any area. It could be in defense. But it is something that should be considered. After that service, they could go in to the military, or other areas of higher pay, and save our total defense payment and manpower, which, as you know, is some 48 percent.

It should be noted that the Defense Department is actively working in many of these areas, but progress, I must admit, is very slow.

How does all this affect Magnavox in Fort Wayne? My general impression is that in Fort Wayne people are expecting some tax increase in 1986, and will accept it. The revision of the Tax Code is expected, and I think it must be accomplished. Neither of these will have a great impact on our people in Fort Wayne, at least in Magnavox. A reduction in the defense budget will no doubt slow the growth of Magnavox in Fort Wayne, but it should not have a major impact on our present organization.

Senator QUAYLE. Thank you very much, Mr. Smith.

[The prepared statement of Mr. Smith follows:]

Magnavox Government and Industrial Electronics Company
1313 PRODUCTION ROAD
FORT WAYNE, INDIANA 46808

JAMES T. SMITH
CHAIRMAN, PRESIDENT AND CEO

14 February 1985
Field Hearing of the Senate Budget Committee

Senator Quayle, Members of the Staff:

It is a pleasure to be asked to testify before this Field Hearing of the Senate Budget Committee. I would like to comment on many of the outstanding questions before Congress today and elaborate on some of the Defense aspects, since that is where my background more fully qualifies me.

First of all, I, along with all of my associates at the Magnavox Government and Industrial Electronics Company, are concerned about the high deficit figures. I must admit, however, that the total economic picture is a little above my comprehension. The effect of foreign investment in the U.S. has completely distorted the total picture. As interest rates have been falling it was predicted that the dollar would fall, but this has not happened. The expansion of the economy has continued in spite of the trade deficits and reasonably high interest rates, and the budget deficit. Can it continue? The economists, including Paul Volker say, "No! - It is a crisis of the first order".

However, since they haven't predicted very well in the past, their insight may be wrong again - especially if foreign investment continues as strong as it is today.

Foreign investment, however, causes other problems. Henry C. Wallick of the Federal Reserve states, "Foreign funds have been attracted to our shores by high interest rates and political stability. Foreign money is not financing our factories, canals, and railroads. It is financing our unchecked propensity for living beyond our means ...high interest rates attract foreign investment...strengthen the dollar vis-a-vis other currencies. The strong dollar makes it more difficult to market our own exports and encourages imports...otherwise competitive U.S. producers have been priced out of our own, as well as foreign markets by a dollar that has experienced an exceptional increase...foreign investors buy dollars with foreign currencies to invest here; this has the effect of bidding up the value of the dollar in foreign exchange markets..."

Should we have a tax increase? I, along with many of my associates, believe that a tax increase should be used only as a last resort. However, I do believe that the tax code needs to be overhauled to assure that everyone pays some tax and not just compensated wage earners. Whether or not this would be a flat tax or an overhaul of the present tax code, it must be viewed as fair to all taxpayers.

Proposals have been made to freeze government spending at the current levels, with no allowance for inflation. Such a proposal may be a temporary expedient to reduce the budget in the near term, but it does not address the long-range problem of managing our economy. Congress must demonstrate the ability to face up to the tough issues that exist and not put off this problem for the next year.

Reduction or elimination of COLA's must be addressed if we are to contain the growth in our social benefit programs. The Defense budget, however, should be addressed on its own merits.

I do not believe that any of us in the Defense business in Fort Wayne have sufficient knowledge of the threat to make a decision to freeze the Defense budget.

In order to address this subject, I would like to make some comments concerning how the Defense budget is put together, and then address some of the more pertinent aspects of this problem as it might effect Magnavox, Fort Wayne, and possibly the State of Indiana.

The total Defense posture, relative to the threat that hopefully has bipartisan agreement, has been analyzed in great depth by the Defense Department and many of the consulting organizations used by both Defense and Congress. The final scenario that has been agreed to by the responsible people involved is then broken down to determine the size of the armed forces required to counter that threat. This includes the type of forces needed, the manpower and, eventually, the equipment required.

The Strategic Forces which addresses the present MX discussion is an area of which I personally have very little knowledge. Most of my information is obtained through the press and television. As such, I believe that the relation of the threat and the disarmament meetings is best judged by those people in the decision process. These include the Armed Services Committees of the House and Senate, the

Disarmament Committee members, advisors such as Paul Nitze, the Defense Department itself, with the final arbitrator being the President.

I think the public in general, including uninformed individuals like myself, should not get in the middle of that process.

On the subject of Tactical Forces, however, Magnavox is very much involved and I believe that it would be worthwhile to address some of those issues.

We have a great deal of information that says our conventional forces are not adequately equipped at this time. They are, however, much better off today - in both manpower and equipment - than they were four to six years ago. There remains a great deal to be done to bring them up to the state of readiness required to meet the global threat. Reducing the Defense budget should be carefully analyzed in order not to stop this improvement process.

This is not to say that savings cannot be made in the total Defense budget. There are areas that are being addressed by the Defense Department and the contractors involved. I would like to cite some of the positive aspects of what has been done in the past to reduce cost and improve performance, and also some of the new initiatives that are under way.

Your Procurement Ad-Hoc Committee is addressing many of these areas, but I would like to cite our experience at Magnavox as a point of reference to some of your activities.

Multi-year procurements are once again being considered as a way to save money and to stabilize some of the production of military programs. Magnavox has had a few multi-year procurements and our experience fully justifies the expectations along that line. It is difficult to quantify some of the savings involved, but they amount to at least 15% of the program, plus all of the intangible administrative benefits. The program that we cite in this area is the AN/AQA-7 DIFAR System.

AN/AQA-7 DIFAR System - Used to process anti-submarine acoustic information. The DIFAR processor was, I believe, procured in a very cost effective manner since a very competitive price competition occurred for the production of all units immediately following a parallel development by Sanders and Magnavox. It is true that the Navy probably expended approximately $30 million extra during the development phase by carrying the extra contractor, but saved at least $100 million in the initial production award by having the price competition of the two developers.

Furthermore, the DIFAR System has been a perfect example over the years, of what the Air Force now refers to as P^3I (Pre Planned Product Improvement). The system was initially introduced and started production deliveries in 1969, followed by a very carefully conceived and tightly controlled improvement program to improve the production system reliability, and incorporate additional functional capabilities which were determined by Fleet usage to be needed to defeat the threat.

These additional capabilities were developed and reliability improvements incorporated with initial deliveries occurring in 1974, just five years after the initial delivery of the system.

Normally, a new system would have had to be developed and fielded to satisfy these additional functional capabilities, which would take a minimum of ten years. Additional functional capabilities and system enhancements have been incorporated and delivered in Fleet production systems in 1979 and 1982, with still additional capability being added in 1984 production deliveries of AQA-7.

The Navy now has an AQA-7 Processor and Display System in the P-3C that was initially delivered over fifteen years ago, but has been updated and improved to the point where it is at least twice as capable functionally, and five times as reliable as the original production equipments delivered back in 1979 and 1980.

I believe this has been a very cost effective method to supply the Fleet with continuously more capable equipments with better reliability than any other method, since it was always possible to take advantage of Fleet experience and lessons learned to improve the System, rather than re-inventing everything along the way and never having a proven product.

The subject of new technology insertion into programs such as the AQA-7 is one that we have been selling for several years as the most cost effective way of running such activities. To cite another product, the AN/ARC-164 again clearly demonstrates the benefits of continuous production and technology insertion to contain costs.

AN/ARC-164 - *The whole basis under which this program was initially procured (parallel development by three contractors and a competitive runoff for the production contract) was a very cost effective and efficient method of procurement. That method obtains the best performance from all the competitors during the development phase, since they are competing technically, financially, and on a schedule sensitive basis during the development phase, and then go through the intensive price competition for the production award.*

Of course, this program was also awarded on a life-cycle cost basis and was responsible for changing the pattern of meantime between failure performance in UHF radios from less than 50 hours on the average to approximately 1500 hours on the average. Furthermore, the basic configuration of the radio was such that numerous different types of radios could be configured, utilizing a mix of standard and special slices to satisfy many different requirements, without the need for the development of specific unique radio sets.

The productivity improvement actions using new technology, which were taken approximately seven years ago on the production line, improved the quality of the radio, significantly improved the producibility of the radio, and as a result, reduced the production cost of the many thousands of radio sets that have been built since that time.

A program such as outlined above is contrary to the present emphasis on competition as a means of saving Defense dollars. I do not think there is any question that this has been the most effective way of delivering radios to all of the configurations required on the ARC-164 program. We not only save by producing large quantities, but with the flexibility demonstrated by the Air Force in introducing new technology, we have been able to hold down the selling price of these radios below the inflation factors over the past ten years.

Utilizing new technology as it becomes available is the best way to counter ever increasing costs due to the inflationary factors of labor and material.

Competition sounds like a panacea and there are obvious savings that can be realized. However, it would have been a big mistake to recompete the above cited programs during the production cycle. One of the innovations integrated into the AN/ARC-164 through new technology, an anti-jam system known as Have Quick, was proprietary and is now an interim system being widely used by the U.S. Air Force. Such an innovation would not have been forthcoming; new developments would have had to be started.

I cite this example to make you aware of some of the pitfalls that could happen if arbitrary decisions are made concerning the use of competition.

Cost savings through automation and Quality Improvement are also being addressed by the Defense Department and its contractors. At Magnavox, in all of our programs, and particularly in the DIFAR, ARC-164, and Sonobuoy programs, we have introduced various levels of automation over the last fifteen to eighteen years to reduce costs and improve quality. The range of automation introduced goes all the way from hard automation (such as printed circuit board flow solder systems, flat pack integrated circuit tinning equipment, and Zéntel in-circuit testing equipment) to semi-automated equipment (such as Ditmco continuity checkers and Termipoint chassis wiring equipment) to fully flexible automation equipment such as automated test equipment and robotic systems.

Magnavox has been capable of continuously value engineering the sonobuoys over the last 25 years and incorporating sufficient automated equipment into the sonobuoy production programs that we are today delivering a sonobuoy which probably is ten times more complex and capable as those delivered in 1960-1965 time frame at approximately half the cost. In the last three to five years, robotics has been introduced into the sonobuoy manufacturing process; specifically the AN/SSQ-53 Hydrophone Assembly and Test Robot and the AN/SSQ-77 Array Hydrophone Assembly and Test Robot, both of which have reduced the cost considerably. It is estimated that the cost of an AN/SSQ-53 DIFAR Hydrophone assembled and tested by the robotic station is approximately one-sixth that of one assembled and tested by hand as we did three years ago.

MAGIEC Circles (Quality Circles) - As of the end of 1984, MAGIEC has 24 Quality Circles with 155 active members. An aggressive plan for 1985 calls for the initiation of 20 additional circles. Total estimated savings of MAGIEC Circles since their beginning are approximately $860,000 with $500,000 of those savings occurring in 1984.

An interesting fact is that of the 24 existing circles, several are manufacturing, one is made up of manufacturing supervisors, one is in Purchase Material Inspection, one is in Hybrid Microelectronics Operation (MEMO), one is in Manufacturing Engineering Instrument Lab, and one is in Purchasing. Improvement through participative management techniques is not limited to the manufacturing process.

P^{3}E Program (Product, Process, Productivity Enhancement) - During 1984, operations initiated this program to specifically reduce the rework, retest, and reinspection costs associated with in-process defects. This program was initiated on a trial basis in two specific product areas, the ARC-164 and the SSQ-53 sonobuoy. A team of individuals have been established on each project comprised of representatives from Production Engineering, Manufacturing, Design Engineering, Quality Control, Material Control, and Factory Accounting with the Production Engineering representative being designated as Team Leader. These teams have been investigating the cost of rework, retest, and reinspection related to each process area of their programs. Each team then pursues a corrective action (new component, new assembly process, new test method, or perhaps circuit redesign) to eliminate the cause of the defect which is resulting in the additional rework, retest, and reinspection costs. Definitive cost reducing corrective actions have been implemented in both programs and we will consider expanding the program within the next three months across more product lines.

Industrial Modernization Incentive Program (IMIP) - *Magnavox has undertaken, by Memorandum of Understanding with the Air Force, the initiation of an IMIP program the goal of which is to significantly reduce the acquisition cost of defense products, as well as enhance the mobilization/surge capabilities of Magnavox. We have entered into Phase I of the program which is a full scale, twelve month top down analysis of facilities, processes, and methods that will form the basis of developing a strategic modernization plan. The Phase I structured analysis will be used to identify the specific projects and activities that will benefit the most from modernization with the major criteria for selection being cost savings.*

It is anticipated that most of the modernization projects will be modernization of functions or activities that impact the total Magnavox performance on all programs. Functions such as modernization and improvement of material handling, printed circuit assembly and test, manufacturing information control systems, and automated factory process scheduling and loading are representative. The bottom line of this program is that if we are successful in our proposed approach, Magnavox will spend in the order of $40-$50 million in modernization efforts over the next three to five years.

Magnavox will be reimbursed as the savings are realized, along with an acceptable rate of return of approximately 20% which will make the program an excellent one from a Magnavox standpoint in that we will modernize our facilities and capabilities, reduce costs, improve

mobilization capability, and also improve our competitive position in the marketplace due to our reduced cost benefits.
The Government will also benefit significantly in that our estimates indicate at least a 4-1 return of the investment in savings through 1993. In other words, the estimates indicated that savings of nearly $200 million will be realized, assuming an investment of $40-$50 million. It is believed that this estimate is conservative in that typical savings resulting from such activities normally range in the 8-1 category.

Quality Improvement Program - Magnavox has also introduced a Quality Improvement Program which is really called a Management Quality Improvement Program, the focus of which is to provide the ability of every employee at all levels to do their job right the first time, error free. Therefore, it is a program that is not referring only to the quality of manufactured products, but the quality of actions and decisions at all levels from the production worker to the company president. The program is structured in such a way as to start at the management level to get management recognition and understanding that most quality problems are management problems and that there is a need for improvement.

Management must be ready and willing to provide all employees with the necessary tools and decisions to do their jobs right the first time. It is just as important for the accounting clerk or typist or engineer to do their job right as it is for the manufacturing assembly *worker or test technician to do their job right. This program represents an attempt to emphasize the overall attitude and direction of the company toward quality products and performance and never being satisfied with less than the best performance out of every single person in the company. This is not a new concept, but periodically we find it necessary to make a concentrated effort to get the attention of all levels of management.*

As some measure of success in our efforts in achieving quality, it should be noted that Magnavox was the first industry recipient of the DOD Defense Quality Excellence Program Award in 1983.

I believe, as indicated by the above discussion, that our Defense activities are being handled in a cost effective manner.

Is there room to further reduce the cost?

There are some additional areas that are being addressed by the Defense Department and also your "Procurement Ad-Hoc Committee" that can produce significant savings. The examples of savings targets which would allow defense budget reduction with little or no impact are:

a. *Requirements for documentation, reports, and data that are costly and of very questionable utility.*

b. *Procurement policies and practices which result in long drawn out negotiations, multiple submissions of documents, and many, many non productive man hours on both sides.*

c. *Excessive specifications*

d. *Extension of service of the Military and Civil Service.*

It should be noted that the Defense Department is actively working on the first three problems, but it seems that progress is extremely slow.

How does all of this effect Magnavox, Fort Wayne, and Indiana?

The deficit must be addressed in this Congress. I do not believe that a tax increase is required, but my general impression is that most in Fort Wayne are expecting some tax increase in 1986 and will accept it. Revision of the tax code is expected. Neither of these will have a great negative impact on our people or in Fort Wayne.

The reduction in the increase in social benefit programs will not negatively effect Magnavox, but will have some impact on that segment of Fort Wayne and Indiana. Should the Defense budget be cut, Magnavox will probably slow its growth, but will survive without a major impact on the present organization. I say this only because we are not in one of the major programs such as the MX or B1.

In Fort Wayne, Magnavox is in the following areas of business:

1. *Communications*
2. *Anti-submarine Warfare*
3. *Fusing and Arming Devices*
4. *Army Tactical Systems*
5. *Electronic Warfare*

Practically all of our business is devoted to supplying our conventional forces. Should Congress decide to reduce the support in this area some of our programs will no doubt be stretched out, but I believe few of them will be cancelled. Unless something drastic occurs, it can be handled with a minimum impact on employment and our support of the community.

In closing I would like to thank you for this opportunity to address this hearing and if I or my associates can be of any further assistance feel free to call on us.

J.T. Smith

J. T. Smith
Chairman, President and CEO

Senator **Quayle**. Mr. Arthur Liley.

STATEMENT OF ARTHUR LILEY, PRESIDENT, SPICER AXLE DIVISION, DANA CORP., FORT WAYNE, IN

Mr. **Liley**. Thank you. I have heard a lot about a spending freeze. A spending freeze would do nothing with the deficit unless there was an increase in revenue. The increase in revenue could then be utilized to offset the deficit.

I am president of Dana Corp., Spicer Axle Division, and we are a supplier to the vehicular industry. We employ over 7,000 people in the State of Indiana. We have heard a lot in the paper about automotive imports hurting the economy.

There is also an area that we have not considered and that is truck and light truck. At the present time, the ownership, internationally, of vehicular industry in the United States is expanding, and particularly on the truck side.

DOMESTIC CONTENT LEGISLATION OPPOSED

We have Renault who own the Mack Truck Co. We have Mercedes who have bought Freightliner. We have Volvo who bought White. There is legislation now before the Congress, and the Senate, requesting a domestic content legislation. Dana is opposed to a domestic content legislation for these reasons.

If we had domestic content legislation, in our opinion, we would have the suppliers of the foreign automotive manufacturers, and truck manufacturers, coming to this country, and while that would be of service and benefit to the cities in which these were located, it would hurt the existing supply base that is in the United States.

We would much rather have an informal agreement, such as Mazda, in moving to Michigan, have stated that they will purchase 50 percent of their requirements in the United States, nonlegislated.

Kumatsu announced yesterday in Wall Street Journal that they are moving to the United States, and are now exporting 12 vehicles from Japan to this market. They are going to build them here.

We should be having discussions on a governmental level with Japan to make sure that Kumatsu do not import their suppliers and the utilized base of the supplier industry in this country because it is not high at the moment. There is excess capacity available.

If we are going to generate business and revenue, then we have to protect the industries that are here, but not by legislation, by being competitive.

If we ask them to buy locally, then it is a given that it must be globally competitive. We must be able to compete with Japan, Korea, Brazil, and Mexico, and all of the low-labor cost countries.

We have proven we can do this, because the productivity of the American worker is higher than anyone in the world. And even though Mexico has a $1 an hour labor rate, Korea has $2 an hour, and Japan has $6 an hour, Brazil has $2 an hour, the unit labor cost, when compared to the cost of sales in those areas, is as high, or higher, than it is in the United States.

"PROJECT 90" INSTITUTED

The Dana Corp. has instituted a "Project 90," which means that it will beat 90 percent of our major competitors' cost anywhere in the world by 1990. We are going to invest $600 million over the next 3 years, $100 million of which will be in Indiana.

That is how we are going to meet offshore competition. That is how we are going to be able to protect jobs in this country.

That is how we are going to be able to grow our businesses, and increase the job opportunities in this country, but we cannot do it with legislation that is going to take away the benefits of investing that kind of money; $600 million, for the Dana Corp., is substantial.

It is substantial to any organization but it is particularly large for us. We cannot do that, if the credits that we are now getting on capital investment, is going to be taken away on a new tax base. So when you are looking—we are part of a smokestack industry. When you are looking at tax cuts or tax increases, make sure that you do not take away the thing that has made this country great, and that is the ability to form capital, the ability to have capital to invest, to protect the jobs that we have here now, to be competitive on a world basis. I will put the Indiana worker up against anybody in the world.

We have proven that, because at the moment, we are supplying axles to Jaguar Corp. in England for their vehicles that they are making.

The pound as you know, is at the lowest level that it has ever been in the history of England, and yet, we are able to compete with that high dollar differential, with European suppliers, provide axles made in Fort Wayne, IN, to European manufacturers on a competitive basis.

That is proof positive that we can do it in the United States, if we have the support of Government. Defense spending is on everybody's mind. It is high. It has to be reduced.

We all recognize the fact that we are behind the Russians but I share with my colleage, Jim Smith, the fact that I am a very lay person in that area. I will leave it up to the experts.

But the perception of the man on the street is that defense spending is too high, it is not controlled, it is not monitored, and there are far more costs and inefficiencies involved in defense than anywhere else in the industry. I would like to close by saying that we appreciate your coming here and allowing us to give you our views on industry, and how the tax laws are going to affect us.

Senator QUAYLE. Thank you very much, Mr. Liley.

[The prepared statement of Mr. Liley follows:].

Dana Corporation Position on Trade Policy and the U.S. Parts Supplier Industry

Dana Corporation has been a supplier of original equipment and replacement parts for the vehicular market since 1904. Today we are a global company serving the vehicular and industrial markets with decentralized regional organizations in North America, South America, Europe and Asia-Pacific. Our U.S. operations include 280 facilities and 25,000 people in 32 states.

The highly publicized story of import participation in the U.S. car market has caused government and the public to focus entirely on the car portion of the vehicular market. Largely overlooked is the fact that the light and heavy truck markets in the U.S. are also becoming increasingly international. International ownership of U.S. truck manufacturers has grown and truck imports are on the rise - a trend that will continue.

This is happening at a time when there is already excess capacity in the U.S. parts supplier industry - capacity which will never be utilized because our markets will not return to the higher growth rates of the past. This trend toward increased truck imports contracts the parts supplier market even farther.

This is a critical time for the U.S. parts industry. We must revitalize our U.S. facilities to assure that they are competitive on a worldwide basis. The international make-up of our markets make this a necessity and their survival depends on it. Dana Corporation is embarked on "Project 90", a major capital commitment which will put into our facilities the latest in computerized manufacturing technology. Worldwide it will total $600 million over the next three years with the majority of that amount being spent in the U.S.

Dana Corporation has always supported trade liberalization which will promote the free flow of goods and capital. We oppose legislated protectionist measures like "Domestic Content". Such measures create inefficiencies and would inflate manufacturing costs in the U.S. - thereby limiting future U.S. export opportunities.

However, we must maintain a level of business in our U.S. facilities sufficient to generate the capital needed to upgrade those facilities. We also believe it is a good policy to employ people in markets where you sell products. Therefore we encourage the U.S. government to pursue informal discussions with appropriate countries which would lead to increased sourcing of U.S. manufactured parts for light and heavy trucks which are sold in the United States. For example, when Mazda announced plans to locate in Flat Rock, Michigan, they publicly stated it is their intention to utilize at least 50% content in the vehicles they produce. This kind of informal understanding can be pursued on a government to government basis while still retaining the flexibility to let the market place determine who the U.S. parts suppliers will be.

An informal approach such as this retains the competitiveness of the marketplace, helps to generate the capital needed to upgrade the domestic supplier industry and will lead to increased future export opportunities for U.S. parts suppliers.

The Federal budget deficit is America's biggest economic problem. The deficit continues to hover near $200 billion, and likely will stay there for much of the decade. Deficits of this magnitude soak up most of the savings generated annually by the American economy. This money should be used for business expansion and employment growth - not for funding Washington's programs.

The roots of the budget deficit problem are clear: we as a country have made too many promises that are beyond our means to keep. This is especially true with entitlemeht programs such as Social Security and Medicare. Such programs constitute much of the 75% of total spending that Congress directly controls. Congress widened the coverage and scope of our entitlement spending; and only Congress can bring such spending back into line with financial and social reality.

Reduction of entitlement programs and other spending programs with popular support (such as military spending and subsidies like the Student Loan Program) will not be easy. It is however, necessary. Raising taxes is not the answer. Higher taxes sap the strength of the economy's productive sectors and just postpone the day when spending is brought back in line with ability to pay.

This decade began with three hard recession years that taught American business an important lesson: how to do more with less. American business faces such strong global competition today that no company can afford inefficiencies of people, investments, or products. Yet the greatest inefficiency of all - the Federal government's failure to keep spending in line with income - hurts American business directly by contributing to the overvalued dollar, continued high interest rates, and the massive trade deficit.

American business is dedicated to making itself more efficient. For the economic good of all Americans, Washington must do likewise. The Federal budget deficit will not disappear by itself. Our political leaders must make the difficult choices that will reduce the deficit. To do less is to jeopardize the economic future of America.

Art Liley, President
Spicer Axle Division
Dana Corporation
2/85

Pages 408 to 409 insert here
Senator QUAYLE. Wally Sheffel.

STATEMENT OF WALLY SHEFFEL, PRESIDENT, EAGLE PICHER, FORT WAYNE, IN

Mr. SHEFFEL. Yes. I appreciate being invited here, too, Senator Quayle. I am president of Eagle Picher, and we have four manufacturing facilities in the Fort Wayne area, and northeast Indiana, including our newest addition in Huntington last year, which is, by the way, very successful.

Now I am not an expert in economics, nor have I really had a chance to study the new budget in detail, or analyze the deficit. I can only address myself to what I believe, based on experience, in growing several manufacturing companies over the last 35 years.

GREATEST FEAR IS RUNAWAY INFLATION

As a businessman, my greatest fear is another round of runaway inflation, more than 3 or 4 percent. It is impossible, during these periods, to have a profitable business. Costs of materials grow faster than we can get our prices up, so we always lose money. Wages grow out of reason but they never catch up to inflation, either. Everyone loses in periods of inflation.

I have a firm belief that the work ethic is very important to this country. That each person must produce as much of his needs as possible. Anything less robs the gross national product and causes inflation.

These thoughts are the basis for my opinions concerning the budget. I am highly disturbed by the high rate of borrowing to finance the deficit. Government competes on the money market, and so, tends to raise the interest rates. High interest rates tend to cause inflation and add to our difficulty in competing in the world markets.

But a greater worry is the fact that we must borrow from foreign banks at high rates. It appears that we are barely able to pay the interest on this deficit without any chance of reducing the principal. It is very possible, that soon, we will be in the same boat as many of the developing countries, where we can no longer pay our interest and principal, and foreign bankers can pull the plug on our economy at any time.

The Federal Government has operated in the red for some 15 straight years now. I heard a comment on the radio coming up here. Someone on a call-in program said, "We have hired people to handle our money and they have spent more than we have been able to give them."

So I am against deficit spending. In fact I do not even understand it, outside of war periods. The State of Indiana does not do it. My company cannot do it. We must survive and grow on what we earn.

Social services must be reduced to only those persons that are unable to work. Others must produce whatever they are able, to assist the economy, rather than to just take. Many persons in the job market are unskilled when they come to us. Some are very poorly educated. Many leave paying jobs to go on welfare. Without transportation costs, babysitters, et cetera, they make almost as much by not working as they do by working.

It appears that we solicit increased social services. We must make it unattractive—we make it too unattractive to go to work.

We pour billions of dollars into foreign aid. I believe that it is morally necessary to help but why money? Money can easily end up in Swiss banks and it is not immediately helpful to those who need it. Why not grain, beef, medical supplies and clothes, and maybe even arms? Items most needed, but items which help our farmers, our businesses, and keep our money at home if we can.

Now I served for 4 years in the Marine Corps during World War II, 2½ years in the Pacific on a number of islands. I firmly believe in strong defense, and therefore, a strong military organization.

I am afraid without it, we would be forced in to fighting in a number of areas, and increase that cost, or perhaps become a colony of Japan, Russia or whatever.

GET RID OF WASTE

I have not had the time to be knowledgeable enough to know exactly what weapons are needed and how much that will cost. I will leave that up to the experts. However, I do hate, passionately, the waste in the system. The early pensions, the bureaucrats' inability or reluctance to make decisions, and get rid of inadequate or surplus people. The massive paperwork. Our need, in our company, of specialists just to read the request code, to say nothing of the actual contracts.

Now I have read in the paper about $200 hammers, $400 toilet seats—I am sorry, we do not make any of those. I can understand that, however. Fifty inspections, probably more than the private sector, 15 people reviewing costs, 21 copies of quotes, special shipping cartons, and so forth.

Many companies do a lot of research and testing and never get an order. People in Washington second-guess the engineers after a lot of years of study. Such costs all must be added to the final price.

You can literally bury a company like ours in paper. Yes, I believe in a strong defense, but get rid of the waste, the redtape, and greatly reduce the cost to the military without changing the end result.

We can do it a lot cheaper. Basically, I believe in the proposed budget. The deficit must be reduced with a serious plan to eliminate it. We must live within our income.

I know very little about farm subsidies, but since I was asked to come up here several days ago, I talked to 10 or 12 local farmers in Indiana and Ohio, including several Amish people. I asked what would happen if all Government subsidies would be removed. Their answer, almost 100 percent was, "What subsidies?"

That's what a big guy, take off the rules, "We'll work things out by ourselves." Now Senator, someone has to take the lead. Is this Congress strong enough to face up? I know I, and I am sure the people at this table, will help all we can to sell it and support it. Thank you.

Senator **Quayle**. Thank you very much.

RETURN OF INFLATION FEARED

Mr. Sheffel mentioned the fear and the return of the expectations of inflation. Mr. Metcalfe, do you fear inflation returning?

Mr. **Metcalfe**. I have certain fears about it, yes.

Senator **Quayle**. And primarily with the large deficits, that the normal economic reaction, that at some time there is going to be a money supply——

Mr. **Metcalfe**. Right.

Senator **Quayle**. Mr. Liley?

Mr. **Liley**. That is the expectations.

Senator **Quayle**. That is interesting. This came up at Indianapolis also. There was a panel that talked about it. I think they were real estate people. And they talked about the fear of the expectations of inflation. And last week, in the Senate Budget Committee, we had Paul Volcker, Chairman of the Federal Reserve, and Rudy Penner, who is Director of the Congressional Budget Office both say "No, inflation is simply not going to return. Not within the next 12 months and not within the next 18 months."

But, you all are on the firing line. Those expectations are out there. And that is one of the lessons that I have learned from this trip, is that latent fear on the return of inflation is very real and dominant within the business community.

Mr. **Metcalfe**. It is impossible to deal with, Senator, from a business standpoint. There is no way that you can keep up with your pricing. So you work hard, you ear out your machinery, and you do not make any money. You cannot replace that machinery. After a certain period of time you end up with worn out machinery, and as you notice, in the steel mills, it has not been replaced. And that is what inflation does for you. So it is the greatest fear we have.

Senator **Quayle**. Let me ask you—there is a little bit of difference of opinion on raising taxes or cutting spending. I think Mr. Liley, you are fairly straightforward.

Is there a particular area that you think we could concentrate on in revenues, to specify what kind of taxes would be the fairest, or to make sure that we want to have the capital formation? I know that you are very sensitive about it, and talked about in your testimony. Have you given any thought, or, from your business perspective, of what taxes would not necessarily be counterproductive to economic growth?

TAX INCREASE WOULD BE ACCEPTABLE

Mr. **Liley**. Well, I think you asked the mayor a question and he answered a different one. I believe that the general public would be more receptive to an increase in income tax than they would the tax shifting that will go on if the revenue sharing is cut off.

Those programs will still continue, maybe not at the same rate, but they will continue. So we are having a cost shift and a tax shift from income tax to property tax. I share the feeling with the mayor. The property tax is ubiquitous. Everybody participates in that.

Even if they are not earning income. Even if the company is losing money, you still pay property tax. Income tax, on the other hand, is different.

I believe an income tax would be more acceptable, a personal opinion. I believe that most people, subliminally, are expecting an income tax.

What the increase is, or how it is handled, really does not matter, and the way it is being discussed I believe is fair and equitable. Some of the tax shelters being removed that have been used erroneously and unfairly. The tax structure should be changed. But I think an income tax increase would not be unpalatable to the general public, if it was handled fairly.

Senator **Quayle**. You think that people are expecting that?

Mr. **Liley**. I think so, even though everybody said that there is not going to be one, everybody is expecting one.

Senator **Quayle**. You think so, too? Mr. Metcalfe?

Mr. **Metcalfe**. Yes. I think there is a general distrust in what we hear.

Senator **Quayle**. So in other words, if we say we are going to raise your taxes, we are really going to cut spending?

Mr. **Metcalfe**. That is right.

Mr. **Sheffel**. One other comment I have on——

Senator **Quayle**. A sad comment on where we are. I do not disagree.

Mr. **Sheffel**. I say that some tax increase would be palatable if the spending is down because——

Senator **Quayle**. If the spending is down.

Mr. **Sheffel** [continuing]. Is the statement that I made today. I think as much as we—they have a way of spending more than we collect, no matter what we collect. I think that is where the trouble would come.

Senator **Quayle**. Interesting.

Mr. **Metcalfe**. Senator, I do not think we can eliminate, you know, all of the costs that are involved here, but I certainly think we could spread it over a great many more people, many of whom are escaping it right now and have been for years.

Senator **Quayle**. Get into the tax simplification proposal.

Mr. **Metcalfe**. That is right. Tax simplification.

DEFENSE CONSTITUENCY TURNED UPSIDE DOWN

Senator **Quayle**. Let me just ask one question of Mr. Smith. I know you are interested in defense spending, and I can say right now that the defense constituency, as such, has been turned upside down. In 1981 there was strong support that we need to spend more in defense. Now the polls show that there is strong support out there that we ought to cut defense. And you know the realities of it.

That there are certain limitations. We can get more efficiency, and we are going to look at that with the procurement item. If you had to advise the Secretary of State or the President on how they could—because their interest is to provide for national security, do it in an efficient way but provide for national security—how could they regain the high ground in the area of defense? They are on the losing edge of this, if you look at public opinion polls right now. Is there anything, from your perspective, that they could be doing right now, differently, as far as to try to regain that high ground that they had for a few years but have now lost?

Mr. SMITH. Well, they lost the high ground primarily, I think, because the articulation of a threat to, even people like myself, is fairly limited, and so you get the impression that they are just spending money, and there is really no real reason to spend it.

Everybody is looking at the problem, well, we have got 16 missiles, that theoretically, from a layman's point of view, they would do the same job, and that is not the case. But nevertheless, the impression that is given through the press, to the public is that, "They are starting off on another one and they do not need it."

So it is the positive output of people. I sat around here today and I listened to this routine about $600 toilet seats, and I really get incensed, in a way, that people really believe that there are a lot of crooks in this business, and that is just not a fact.

ALLOCATION OF COSTS NOT EXPLAINED PROPERLY

The allocation of costs was never explained properly. It is to some people, and I think it has been explained to you, but unfortunately, some of the defense industry got panicky. Sperry turned around and gave somebody back, I do not know, a couple hundred thousand dollars, rather than argue the problem.

And so as a result, everybody is guilty. You will not see us doing things like that, I will tell you. If we have a spares order for 10,000 items next month, we have an administrative cost to do that job, and let us assume that it is $10,000.

There are several ways to allocate the cost. You can allocate it a dollar an item. Therefore, a 2-cent screw costs $1.02.

Or you can allocate it based on their value. The most efficient and cost-effective way is to allocate it based on the item, very much simpler to do, and it costs the same amount of total dollars.

But people sit around and say, "Do you know, that guy delivered $600 toilet seats." And that is just not a fact. So that kind of thing completely distorts the whole picture. And there are a lot of people who believe that. People in this room obviously believe it. A lot of my friends do, which really bothers me, because I think we would be making a fortune, no question about it.

Senator QUAYLE. I think Mr. Sheffel said he would like to make some of those $600 toilet seats.

Mr. SMITH. So would I, you know.

Senator QUAYLE. So would you.

Mr. SMITH. Yes, right, but I think the perception of the public, they are getting a very bad opinion of the Defense Department.

Senator QUAYLE. They are. That is why I asked how they can regain this high ground.

Mr. SMITH. Well, that is the reason, you know. We, obviously, in the industry associations, have gone to the point of saying every advertisement of the defense industry ought to emphasize quality, and schedule, or something, rather than saying, you know, "Let us just advertise a new product." I think the image is very poor, and at times, it is poor even in this city, in which, fortunately, I think we do a very good job, but I am a little prejudiced.

Mr. SHEFFEL. To add to that, I might say that it costs $500 perhaps more to make a decision in the military—to answer a question, than it would for the automotive industry. That is the difference and the cost has to go somewhere.

Senator QUAYLE. OK. Thank you all very much.

Next, we have Ian Rolland, and Mr. Bolenbaugh, and Mr. Bob Howard. First on my list is Mr. Rolland, Ian Rolland of Lincoln National Corp. Proceed at your pleasure, sir.

STATEMENT OF IAN M. ROLLAND, PRESIDENT AND CHIEF EXECUTIVE OFFICER, LINCOLN NATIONAL CORP., FORT WAYNE, IN

Mr. ROLLAND. Senator Quayle, ladies and gentlemen. I appreciate the chance to be here to talk on this subject. I think it is important, and heartening, that you would come out here in to the hinterlands to find out what people out here are thinking about this issue.

As you have noted in your public comments, our nation faces a fiscal problem of potentially catastrophic consequences. Federal revenues for the most recent fiscal year were 18.6 percent of gross national product and Federal spending was 23 percent of GNP. That is a 5-percent deficit and so we cannot ignore the problem.

We agree with President Reagan, and many others, that this deficit must be addressed, and we agree that it probably is the most severe problem facing our country.

Our concern, however, is over the proposals that the President and his advisers have advanced to address the deficit problem.

DEFICIT REDUCTION MUST BE FAIR

The main point I want to make is that any deficit reduction must be fair, and calling for equality of sacrifice. I do not think the proposals that I have seen from the administration, as I understand them, have been fair.

First of all, the administration seems unwilling to cut the defense budget almost a single penny. We would agree with the administration on defense, if we believed that cutting the defense budget would in any way imperil the safety of our country or the men and women who defend it.

But we cannot ignore, I guess in spite of what Jim Smith says, the reports of waste purchasing practices, costly overruns on products, and contractors entertaining lavishly at taxpayers' expense. Surely, some waste can be eliminated from the defense budget.

In that regard, I just recently read the book, the autobiography of Lee Iacocca. He indicated in that book that he had not seen a budget that could not be cut 5 percent.

I agree with that. I have not seen a budget that could not be cut 5 percent in our own organization, and I think that there has to be 5 percent of waste and inefficiency in the defense budget that could be taken out without destroying the basic thrust of our defense needs.

The second major area that I think ought to get some scrutiny in Congress is that of Federal employee retirements, including military retirements, and I would agree to a large extent with those advocates of a competitive military retirement program, that is an offset to the physical dangers and family hardships encountered by our career military personnel. But while we obviously need an appropriate incentive, we cannot afford what we now have. The lucrative retirements available to Federal civil service employees are also a serious problem in my view. While salaries themselves, for civil service people, I believe are now competitive with the private sector, the retirement programs and plans are significantly better than those afforded comparable private enterprise employment positions.

In addition, I think attention must also be directed to the so-called entitlement programs. I do not know how you can deal with this deficit program without addressing that area, and I know how politically hard that is to do.

But in specifics, I think that attention must be directed at the automatic cost-of-living increases that we now see in the Social Security System. I think that that has to be addressed.

I think you can make a strong case that the automatic cost-of-living increases ought to at least be moderated to some extent in future benefits.

TAX SIMPLIFICATION PLAN CAUSES CONCERN

Correctly or not, some discussion of reducing the deficit has also tended to center on the Treasury Department's so-called tax simplification plan, and that has been discussed a bit here this morning, and that too has cause for concern, particularly for our industry.

The Treasury plan would impose taxes on private sector health and life insurance programs, that by their very nature, we think, help hold the need for additional taxes.

I refer specifically to proposals to tax the inside buildup on whole life insurance and the proposals to tax traditional employee benefits of group life insurance and group health insurance.

Now I think it is patently unfair to tax someone on something the person has not received. So to tax the increasing value of a whole life insurance policy before the policyholder has had an opportunity to receive any benefit from that increased value is not in keeping with the American tradition of fair taxation.

In fact it is like taxing the appreciation on your home even before the property has been sold. Now if the administration succeeds in imposing a tax on the millions of American working people who have group life insurance benefits, the effects can only be diliterious.

Working men and women, faced with the choice of having a benefit, and having to pay tax on it, may well opt to discontinue that benefit in favor of having money for other essentials.

The wage earner dies after dropping the unfairly taxed benefit, and the survivors could well become dependent on the Government and become an additional burden on taxpayers.

Now, another proposal in the Treasury recommendations would tax health insurance benefits offered employees by their employers. The Federal Government is the system that has developed a very effective privately financed system of health insurance for working people in the United States.

If the Federal Government were to provide the benefits now offered by private health care plans, offered by employers: some have estimated the cost could be as much as $80 billion, and I suspect that even under the best of circumstances, the Federal Government could not begin to administer such a program with an efficiency even approaching that in the private sector.

So Senator, in closing, I would ask that you lend all the power of your office to efforts to make certain that necessary reductions in Federal spending are imposed fairly across the board.

I think the American people have to believe that whatever is done is fair, and that all parts of the country are bearing equal sacrifice.

And further, when tax legislation finds its way to Congress, I ask your support in opposing any initiatives that would tax the inside buildup on individual life insurance, and employer paid life and health insurance benefits.

Again, I thank you for this opportunity to express our views.

Senator QUAYLE. Thank you very much, Mr. Rolland.

[The prepared statement of Mr. Rolland follows:].

TESTIMONY

IAN M. ROLLAND

PRESIDENT

LINCOLN NATIONAL CORPORATION

UNITED STATES SENATE

BUDGET COMMITTEE

FIELD HEARINGS

FORT WAYNE, INDIANA

FEBRUARY 14, 1985

Senator Quayle, members of the committee and staff, ladies and gentlemen. My name is Ian M. Rolland. I am a resident of Fort Wayne, and I serve as president and chief executive officer of Lincoln National Corporation. Lincoln National is the largest corporation based in Indiana; it has assets of more than $12 billion and has annual revenues of more than $4 billion. I wish to thank you, Senator Quayle, for inviting me to appear here today. I trust you will convey to your colleagues on the Senate Budget Committee my sincere gratitude for their having made these hearings possible. It is heartening to know that those of us who stand to be severely affected by the budgeting process have input into that process.

As you have so capably noted in your public comments, our nation faces a fiscal problem of potentially catastrophic consequences. With federal revenues for the most recent fiscal year at 18.6 percent of the Gross National Product and federal spending at 23.5 percent of the GNP, we cannot ignore the problem.

We agree with President Reagan; the deficit must be addressed. Our federal government's history over the past several decades has been one of spending what it doesn't have. Neither the federal government nor my corporation can continue forever to spend more money than it takes in.

Our concern, however, is over proposals the President and his advisors have advanced to address the deficit problem. Any deficit reduction program must call for equality of sacrifice. If we must cut spending on domestic social programs, so must we reduce expenditures related to defense. If we must reduce aid to cities, then we also must consider cuts in such seemingly sacrosanct areas as federal pensions and Social Security cost of living adjustments.

The President and his advisors are seeking remedy in areas of very limited potential while ignoring the areas where significant improvements can be made without lessening our security or disrupting an institution and the millions of Americans who benefit from it.

If you have read Lee Iacocca's book, you will recall that he has said that he never saw a budget that could not be cut five percent.

Neither have I.

Yet, the administration seems unwilling to cut from the defense budget a single penny. We would agree with the administration, if we believed that cutting the defense budget would in any way imperil the safety of our nation or the men and women who defend it. We cannot ignore or disregard the reports of wasteful purchasing practices, costly overruns on products and contractors' entertaining lavishly at taxpayers' expense. Cutting five per cent from that budget should be quite simple, once the emotions are checked.

No one I know wants to weaken our defenses or jeopardize our forces. On the other hand, I know of no one who wants to continue to waste millions if not billions of tax dollars on nonessential items or on programs that were ill-conceived.

A second major area that should get the closest possible scrutiny of Congress is that of federal employee retirements, including military retirement. I will agree to a large extent with those advocates of a competitive military retirement system as an offset to physical dangers and family hardships endured by our career military personnel. In the more than a decade of a conscription-free military, there has been a need to make service financially attractive; certainly the retirement is part of that attraction, but even it should be examined very carefully. We cannot afford what we have, but we obviously need an appropriate incentive.

The lucrative retirements available to federal civil service employees are unconscionable in my view. While salaries themselves are described as competitive, the retirement plans are significantly better than those afforded comparable private enterprise management positions.

Attention also must be directed to so-called entitlement programs that include automatic cost of living increases, such as we see in Social Security benefits. Social Security, after all, is the single biggest item in the federal budget other than defense.

Correctly or not, discussion of reducing the deficit has tended to center on the Treasury Department's so-called "tax simplification" plan. Here, too, is cause for concern.

The Treasury plan would impose taxes on private sector health and life insurance programs that by their very nature help to hold down the need for additional taxes. I refer specifically to proposals to tax the inside buildup on whole life insurance and the proposals to tax traditional employee benefits of group life insurance and group health insurance.

It is patently unfair to tax someone on something the person has not received. To tax the increasing value of a whole life insurance policy before the policyholder has had an opportunity to receive any benefit from that increased value is not in keeping with the American tradition of fair taxation. This would be like taxing appreciation in the value of a home before the property has been sold.

Life insurance protects millions of American families from the economic catastrophe that might result from an untimely death. If families cannot afford to pay tax on something they have not yet received, they will be less likely to buy insurance they need.

The government will have, in effect, discouraged those persons from providing for their own future and that of their surviving family members. It is painfully obvious that persons who are financially incapable of paying for their own care in their declining years will still need the care.

Government, in all too many cases, will be the only source of that help. Government has only one source of funds: taxes. The people whose only sin was to have tried to prepare for their own retirements will suffer financially.

Better it would be, in my opinion, for a federal worker to retire at a slightly lower pension. It would be better for a career military person to be required to serve more than just 20 years for retirement.

There are also those persons who rely heavily on group life insurance to provide for their loved ones should tragedy strike the wage-earner. While many persons covered by group life insurance have other insurance, many do not. In fact, many of them cannot get individual policies; the risk for their particular situation is too great to be underwritten. By spreading the risk through a group of insured persons, those employees can be insured. The family that might require tax dollars for support after the loss of the wage-earner is assisted instead by insurance paid for and provided by the private sector. Nearly all the group life insurance policies are provided by employers as a benefit to employees.

If the administration succeeds in imposing a tax on the millions of American working people who have group life insurance benefits, the effects can only be deleterious. Working men and women faced with the choice of having a benefit and having to pay the tax on it may well opt to discontinue that insurance in favor of having money for other essentials. They may elect to run the risk of being inadequately insured, simply because they cannot afford the cost of the tax.

If the wage-earner dies after dropping the unfairly taxed benefit, the survivors could well become dependent on the government and become an additional burden on taxpayers. Most likely to be affected would be the young wage-earners with small children, children who may need to be assisted with taxpayers' money for 15 years or more. All of that expense would be prompted by the unfortunate effort of a well-intentioned government trying to tax something that by its very nature lessens the need for taxes. To me it makes no sense.

It could be granted a modicum of respectability if the potential revenue were substantial when compared with other federal budget figures. We are talking about a program of taxation of health benefits with the result of an additional $30 billion. If the federal government were to provide the benefits now offered by the private health care plans offered by employers, some have estimated the cost would be $80 billion. A difference of $50 billion! I submit that even under the best of circumstances the federal government could not begin to administer such a program with an efficiency even approaching that of the private sector.

Many years ago, Congress decided not to tax employer-paid health insurance benefits. History has shown the wisdom of this decision. Today, Americans are healthier and live longer than ever before. And, we have avoided extension to the general public of the bureaucratic inefficiencies built into Medicare and Medicaid.

Could a government program provide for the health needs of all Americans? Perhaps, but not with anything like the efficiency of the present system.

Senator, in closing I would like to suggest that there is a fundamental, philosophical inconsistency in the administration's proposal. We have heard promises of less governmental interference in the workings of the nation's economic system. We have seen evidences of that commitment in the deregulation of functions that work best without regulation. We have seen an improving economy, and we welcome it. We find it very difficult, therefore, to understand the rationale behind these tax proposals that very clearly will result in more government and more taxes with weakened benefits and stifled enterprise. We could say that instead of applying a tourniquet to stanch the flow of blood, the administration would stop the heart from beating. Proponents of the taxes we have discussed would kill the working person's hope for independence and the dignity of self-reliance. It would be an agonizing death of a system that is now healthy and well.

I would ask that you lend all the power of your office to efforts to make certain that necessary reductions in the federal spending are imposed fairly across the board. Further, when tax legislation finds its way to Congress, I ask your support in opposing initiatives that would tax the inside buildup on life insurance and employer-paid life and health insurance.

Again, I thank you for this opportunity to express our views.

I will be happy to answer any questions.

Senator **Quayle**. Next is Mr. Robert Bolenbaugh.

STATEMENT OF ROBERT R. BOLENBAUGH, OFFICE MANAGER, WORMAN & ASSOCIATES INSURANCE AGENCY, FORT WAYNE, IN

Mr. **Bolenbaugh**. Thank you, Senator, for the opportunity to be here this morning, and to present probably a little different perspective. I had prepared a line item budget for the Federal Government, to present to take back to Washington, and rather than digress through each and every individual, the total amount of savings would be approximately $100 billion, and I realize that some of these plans cannot be implemented immediately. It is a phasedown situation of some eliminations.

One of the things that I think has affected us the most. We have been very successful as far as the free enterprise system operating now, progress being made in that sector. But from 1981 to 1986, our Federal budget has increased approximately 44 percent. At the same time, our national defense has increased approximately 81 percent, and there is no way, I feel, that they can humanly absorb efficiently that type of money in any budget of the governmental agencies in this country.

There is going to be waste, and as a strong advocate of strong national defense, I feel that they can very readily cut $20 billion out of the national defense, just one of the items.

COUNTRY FACING CRISIS SITUATION

I know I should be here representing special interests, and there are a couple of them here that I have written down, "Eliminate," because I have seen the programs, and so forth, and they are good. But the country as a whole is facing a crisis situation, the same crisis that we faced on December 7, 1941. It is just a little different.

And I also feel that the Congress has tried to address these over the years, but I think we get in to election years, we get into other types of things. A freeze is not sufficient to do the job. We are talking $36 to $38 billion. That does not balance the budget.

I think there has got to be cuts, and eliminations, along with the freezes, to get this accomplished. So as an individual looking for the well-being, and not representing a special interest group, I feel that nationally, our Government is too important to be imperiled or jeopardized by this overabundant expending of money which competes with, as I have heard before here, with the private sector, with the amount of interest that we are paying increasing up toward 15 percent. Where does it stop?

And it has got to be stopped, I feel; otherwise, we imperil our Government as a whole. It is just as dangerous as any war. I appreciate the opportunity. I hope that the written statements I have, to take back, will be looked at and seriously considered, and I appreciate the opportunity to be here today to present them.

Senator **Quayle**. Thank you very much. I can tell you that your entire written testimony will be inserted in the record for the Senate Budget Committee.

[The prepared statement of Mr. Bolenbaugh follows:].

213 422 1585
02/07/85 15:13 N.E.REG.SEM.OFF. 01

NATIONWIDE
INSURANCE
Nationwide is on your side

Senator Dan Quayle
254 Senate Office Bldg.
Washington, D.C. 20510

SENATOR DAN QUAYLE BUDGET FIELD HEARINGS

February 14, 1985

The following are my suggestions for reducing spending of our Government spending that is enacted by our elected officials. Some of these reductions or eliminations are not easy to suggest, but I feel sacrifices must made by all.

Program	Reduced (in billions)	Comments
National Defense	[illegible]	
Social Security	$ 1.0	No increases for inflation 2 years
Health	$ 2.0	Permit inflationary increase
Veterans Programs	$ 2.0	Permit inflationary increase
Federal Pensions	$ 2.0	No increases for inflation for 2 years
Unemployment	$ 2.0	No increases for inflation for 2 years
Farm Subsidies	$12.0	No increases for inflation for 2 years
Food Stamps	$ 2.0	No increases for inflation for 2 years
Low income Housing	$ 1.42	No increases for inflation for 2 years
Aid for Elderly SSI	$ .75	No increases for inflation for 2 years
Foreign Military Aid	$ 2.0	No increases for inflation for 2 years
College Tuition Fund		Eliminate
Grants to Local Schools		Eliminate
Space Program NASA	$ 2.08	No increases for 2 years

219 422 1585
[illegible] 15:15 N.E.REG.SEN.OFF. 01

NATIONWIDE INSURANCE
Nationwide is on your side

C[illegible]	$ 6.67	Eliminate
Air Transportation	$ 1.0	No increases for 2 years
Foreign Aid-Economic	$ .97	No increases for 2 years
Aid to Cities	$ 4.64	Eliminate
Revenue Sharing	$ 4.57	Eliminate
Mass Transit	$ 3.96	Eliminate
Dams, Rivers and Waterways	$ 1.77	No inflationary increases
Regional Development	$ 1.00	No inflationary increases
Rural Housing Aid	$ 2.22	Eliminate
Job Training Grants	$ 1.89	Eliminate
House & Senate Costs	$ .44	No increases for 2 years
Energy-New Supplies	$ 1.43	Eliminate
Earned Income Credit	$ 1.24	No increases
Export Subsidies	$ .87	Eliminate
Youth Summer Jobs	$ .64	Eliminate
Small Business Aid	$ .63	Eliminate
Job Corps	$ .61	Eliminate
Dist. Of Columbia	$ .48	Eliminate
Ocean Shipping Subsidy	$ .40	Eliminate
	$99.63 Billion Dollars	

Here is a savings plan of approximately $100 Billion dollars. Though I feel some will take a year to phase out, but at least a savings of $60 Billion in 1986.

No new programs should be started and absolutely no increases to make up for inflation for at least one year and some 2 or more.

Its time our elected officials stop being politicians and become statesmen.

Thank you for this Opportunity.

Office

Worman & Associates
3737 Lake Avenue
Fort Wayne, IN 46805
(219) 422-4444

Home

Robert R. Bolenbaugh
1802 Hopewell Drive
Fort Wayne, IN 46819
(219) 747-4619

Senator **Quayle**. Next, Mr. Robert Howard. Welcome. Proceed at your pleasure.

STATEMENT OF ROBERT E. HOWARD, VICE PRESIDENT AND TREASURER, MUTUAL SECURITY LIFE INSURANCE CO., FORT WAYNE, IN

Mr. **Howard**. Good morning, Senator Quayle. Thank you for taking time to come to Fort Wayne and to hold you hand out the window and see which way the wind is blowing.

Senator **Quayle**. I cannot tell.

Mr. **Howard**. And maybe to see some of the victims from these high deficits and strong dollars. I tend to be a finance person myself, although I have been a farmer and owned farms, and I am currently a major in the U.S. Air Force Reserves.

NARROW THE DEFICIT WITH A FREEZE

I think the deficit is probably our most important problem and a freeze is a good way to compromise, to narrow the deficit.

However, I would like to see Congress make selective cuts such as in defense, or stretch out programs over a number of years.

I would like to see the Entitlement Program slowed and some of the rent supplement programs. And bring back more free enterprise, and lessen the dependency on the Federal Government. One of President Reagan's strongest points is the free market zeal, that he is encouraging in such industries as the airlines and trucking, that it filters on down to other businesses.

To be strong, defensively, you also need to have a strong economy. One important point is to reduce the strong dollar.

You cannot believe how high the dollar has moved. The flip side of that is in effect the foreigners have devalued their currencies. They do not say that, but it has the same effect in the strong dollar. The foreign inflow of money has distorted most markets, especially the capital markets.

Last year foreigners bought $100 billion of our $200 billion national deficit. They presently hold about $200 billion of that deficit. Thirty-five years ago, when Ian and I were taking economics, most of the people said, "Well, it did not make any difference about the deficit, if you owed the money to yourself."

But the problem is, we are owing it to others, outside the country. Mayor Win Moses indicates he would like more income.

Well, one way, we are spending $25 to $30 billion to foreigners for interest payments, and it is increasing rapidly. If that were scaled back or reduced or slowed down, then those—if you can save $25 billion and not send it over to foreigners, then that would give Winfield more money for his programs. If you can save $25 billion or $30 billion annually over a period of years it will start adding up. The big question of this, to me is, how big will this drag be on the American economy? Because this is $25, or $30, or $50 billion that we are shipping outside the country to others, that have no economic effect here in the United States.

NEEDS BEING CROWDED OUT BY DEFICIT

These $200 billion deficits are also crowding out the needs of our corporations, and individuals, to modernize their plants, become more productive, and have a better standard of living.

One good example of the crowding out, in how high our interest rates are right now, is that you can borrow, corporations can borrow money twice—excuse me—half the cost, in Japan right now, that it costs here!

Interest rates are abnormally high. Just the expectations, Senator Quayle, have a devastating effect on the costs, and the fear of renewed inflation.

You say, "Well, it is hard to measure fear." Well, we see fear every day in our rate schedules. Currently interest rates, short-term, around 7 percent. Long-term rates are in the area of 12 to 14 percent.

The difference between short term and long term is the betting premium that you have to put on in forecasting out 5, 10, and 30 years, and that, your betting premium, is based upon historical fear.

Historically, over the period of 100 years, people wanted about a 3-percent return on their money. When you are having 15-percent rates of inflation, that is why we have 20-percent money.

Right now, we have about 4 or 5 percent inflation, plus 3 percent, is around 7 or 8 percent. Long-term money currently is running around 13, 14 percent. The difference between the 8 percent and the 14 percent is your betting premium on inflation. If we can bring down and reduce the strength of the dollar, it will increase the competitiveness of all of our corporations.

We have literally exported thousands and thousands and thousands of jobs to the foreigners. In the farm area, the strength of the dollar has increased cost of corn and soybeans to foreigners 30 to 40 percent.

If we would get a reduction in the U.S. dollar, the farm prices would increase immediately. In increasing the credibility on some of the cost overruns, and the high priced items, Senator Quayle, maybe we should shoot the accountants, but I do wish to thank you for your time in coming out and listening to some of us in the Midwest, that would like to return to a little more balanced budget, and live within our means, like we have to do individually, and with our corporations. Thank you.

Senator **Quayle**. Thank you very much, Mr. Howard.

[The prepared statement of Mr. Howard follows:].

February 14, 1985

THE FOLLOWING ARE THE OPINIONS AND IDEAS OF ROBERT E. HOWARD
1230 KORTE LANE, FORT WAYNE, INDIANA 46807, AND A NUMBER OF
HIS ASSOCIATES AND HOOSIER FRIENDS, AS PRESENTED TO THE U.S.
SENATE BUDGET COMMITTEE FIELD HEARINGS IN FORT WAYNE,
INDIANA, AT THE REQUEST OF DAN QUAYLE, U.S. SENATOR FROM INDIANA

Robert E. Howard -- Born in Hammond, Indiana in 1933; grew up in Remington, Indiana and attended 12 years of schooling there. My Bachelor of Science degree and Master of Business Administration were received from Indiana University in 1955 and 1958, and the designation of Chartered Financial Analyst was earned in 1967. From 1955 to 1958, I was a pilot in the U.S. Air Force and I am currently a Major in the U.S. Air Force Reserve. In 1958 I joined International Telephone and Telegraph as a budget accountant. From 1959 through 1977, I was Assistant Vice President - Investments for Lincoln National Life Insurance Company and for the past 5 years I have been Vice President - Treasurer of Mutual Security Life Insurance Company, Fort Wayne, Indiana, supervising an investment portfolio of $600,000,000. Over the years, I have started up and invested in numerous manufacturing concerns and own and actively manage three farms along with teaching accounting and investments on a part time basis for 23 years at Indiana University.

CURRENT CONCERNS -- The most important concern of the constituents in the Fort Wayne area, I believe, is the hemorrhaging of the Federal budget which currently is running a deficit of $200 Billion and the lack of backbone of many of the representatives throughout the United States in not coming to grips with living within their means and solving the deficit problem. In studying economics 35 years ago, there was always a great concern about not balancing the budget. President Eisenhower was concerned when they had a $2 Billion or $3 Billion deficit and later Nixon was concerned with a $5 Billion or $10 Billion deficit.

The United States budgetary process is somewhat like an individual or corporation. If a corporation or individual continues to lose money and have a negative cash flow year after year and builds up large amounts of liabilities then there usually comes a time when their earning ability is not sufficient to service the debt and the company or the individual goes into bankruptcy. We have had numerous examples such as the Penn Central Railroad, the Continental Illinois Bank, numerous savings and loan associations and scores of smaller businesses and individuals. For a number of years, the economists thought that as long as you owed the money to yourself, why be concerned about deficits. Presently foreigners hold close to $200 Billion of our $1.3 Trillion national debt, state and local governments own about $165 Billion of the U.S. debt and other corporations and pension funds own $320 Billion of the debt. Most of these institutions do not pay federal taxes on the U.S. interest received in that State and Local Governments and pension funds are sheltered from the U.S. tax. The most important concern is the "DRAG" on the U.S. economy in servicing the $200 Billion debt owed to foreigners. With interest rates running in the neighborhood of 11 1/2%, the U.S. would pay out roughly $23 Billion a year in annual interest and this amount would increase approximately $15 Billion a year as foreigners are currently funding about $100 Billion or 1/2 of our annual $200 Billion deficit. This amount is paid out of the economic system here in the U.S. and is lost forever to the U.S. economy. If we did not have to pay this $25 or $30 Billion annually to foreigners then these funds could be used for many beneficial purposes for the good of U.S. citizens rather than foreigners.

STRENGTH OF THE DOLLAR - Because of the relative high interest rates in the U.S. compared with the rest of the world, along with the strong dollar, the stability of the dollar, the low inflation rate and the ease of movement of capital in and out of the United States, foreign funds have poured into this country making the dollar stronger relative to most foreign currencies such as the British Pound, the Japanese Yen, the French Franc, and the Italian Lira. The strength in these currencies has made over the past 4 or 5 years the products of foreigners much cheaper to import and the cost of U.S. products much more expensive to export. With high interest rates and a strong dollar we have exported literally thousands and thousands of jobs and hurt the United States industries such as steel, autos, copper and electrical appliances. This strong dollar has had a devastating effect on our farmers who are the most productive in the world. By reducing the strength of the dollar, the cost of our soybeans and corn, lumber and other products will be 30% to 40% cheaper to the foreign buyers. If the deficit is reduced then the interest rates will come down, the dollar will weaken and we will be able to increase the job opportunities for the U.S. people who desire work in our country. This will probably help a number of the families and may even have the effect of holding a number of family units together.

We talk about a strong national defense to protect the country. One of the first lines of defense for many families, individuals, corporations or countries is to live within its means and be strong economically. There will obviously be times in the future when we will be called upon to have larger deficits when it is imperative for national defense. However, in present times we should put our economic house in order.

SOLUTION - I believe most of the people in the Fort Wayne area would go along with an across the board freeze in all spending at the current levels. However, I would like to see our Representatives and Senators have more courage and reduce the number of programs that are "not" needed by the people throughout the United States. I am not in favor of weakening national defenses. However, from spending three years in the armed forces, a number of additional years in the active reserve, and 10 or 12 years in the inactive reserve as a Major, I feel that a number of the defense items could be stretched out over a longer period of time, thus reducing the impact on the Federal budget. To have a strong defense, we also need to have a strong and viable economy and we should not mortgage the souls of our children for years and decades to come. In other words, we should live within our means. It is probably very impractical to reduce and balance the budget at this time, but I agree wholeheartedly with Chairman Paul Volker's request of reducing the federal deficit by $50 Billion annually over the next several years.

It appears that the entitlement programs have gotten completely out of control. It is nice to take care of the poor and disabled but it is equally important to encourage our people to take care of themselves rather than have someone else take care of them. One of the greatest programs of President Reagan was to encourage individual workers to develop retirement accounts for themselves so that they do not have to depend upon the Federal Government when they retire.

The Medicare and Medicaid recipients probably should share more of the overall costs in order to encourage them to cut out and reduce as much waste in our medical system as possible. I agree with limiting the C.O.L.A. increases in social security for the current year.

I would like to see the federal government strive toward moving out of the housing business and reducing the rent supplements that have grown so tremendously over the past five years along with reducing expenditures that are paid out for supplementing heating bills. Possibly there could be additional cutbacks in the food stamp program by lowering the threshold for persons to qualify. We are not interested in hurting anyone that is desperately in need of assistance but think we should encourage our populace to work, continue to educate themselves and to encourage the family unit. A number of past programs have discouraged families living and working as a team.

The farm program also needs to be cut and reduced and moved toward a more free market. The government has hurt the farmers over the years with the high deficit, high interest rates that have made the U.S. market uneconomical to foreign purchasers of grain. In a few cases, we have "shot ourselves in the foot" by imposing embargoes against some of our largest trading customers. A number of the farm programs can obviously be scaled back. One of the greatest things the government could do would be to lower the deficit which would increase the commodity prices for our basic goods for the farmers. To go on spending and keeping the farm parity high only increases the umbrella and encourages countries like Argentina and Brazil to clear more jungles and cultivate more land which in turn increases the supply of grain.

One of the most important reasons to reduce the federal deficit would be to reduce the level of interest rates generally and the crowding out of the private sector of individuals and corporations. For example, the cost of money to businesses in Japan is one-half of the cost the same funds are to U.S. businesses. In the long run, the competition of the Federal Government borrowing such huge funds on a week by week basis is that it drives up the interest rates and increases the cost to business and dampens somewhat the modernization of our industries. This also tends to increase our overall cost which makes our goods that much less competitive. Just the anticipation of the Government's borrowing increases rates in excess of 1% to 2% more than they should be.

SUMMARY - In summary, I think the least that we should do is freeze across-the-board spending and make a real attempt to reduce some of the various programs so that all sectors of the United States' populace share in the reduction of the number one problem facing the United States today. The time to put our house in order is when we do not have our "back to the wall" in an economic recession, sky rocketing inflation or fighting a global war. We should have compassion for the underprivileged, but we should encourage our corporations and individuals to prosper on their own without Government support.

Robert E. Howard

REAL COST OF MONEY IS AS HIGH AS EVER

Senator **Quayle**. You are absolutely right. The real cost of money today is as high as it has ever been, and when you are talking about the real cost of money, you are basically looking at the difference between what inflation is and the interest rates. On a comparative basis, we are way of out of sync with our competitors on an international basis, not only hurting the financial community but the farmers in any type of exports. If you want to get out there and start competing in the international market, and you have a strong dollar that is overvalued because 48 percent—believe it or not, 48 percent of the funding of the deficit right now is coming from foreign investment.

I mean, it is a shell game, and at some time, if in fact those interest rates begin to drop, which I think they are going to—at some time—I notice Britain just did it a few months ago, raised their interest rates—and at some time, when they get as good a deal somewhere else, and become more competitive, they are going to begin to drain that foreign investment out of our country, going somewhere else.

And I think that is where this inflation expectation has worked well with the business community—it is not the ones that sit around in their ivory towers and theorize about why it is down forever. Because if in fact that foreign capital starts to go out, then the Federal Reserve is in a real interesting situation, where they are going to go ahead and monetize the debt, unleash and just proliferate the economy with money, which will send it in to an inflation cycle, or, just put the clamps on. You are absolutely right on that fundamental point.

I think the deficits are the pressure. Let me ask a couple of general questions. Let me take the idea of tax simplification.

TAX SIMPLIFICATION FAVORED

Where do you stand on the concept of tax simplification? You are in the finance community. You know a lot of these tax deductions and credits, and incentives, et cetera, that are out there.

The general concept, do you think it is a good idea, or is it something we ought to leave alone, and keep the present Tax Code, and modify that a bit as we have in the past, or, what are your thoughts on that?

Mr. **Howard**. I spend over 200 hours each year preparing my personal tax return. I can have accountants do it, and with no cost to me, but I spend the time to read the tax laws and what have you, because it is my way of learning, and I feel that when I cannot prepare my own tax return, I feel like I am saying I cannot understand it.

Senator **Quayle**. Do not feel lonely.

Mr. **Howard**. I have worked at this for a lot of years. I have had my undergraduate and graduate work in finance, and I have taught investments and accounting at Indiana University for 23 years. And it seems that—I hate to say it—I am too stupid to fill out my own tax return. So I try and do it.

But it is complicated and I am for simplification. I also am for everyone paying some tax.

Senator **Quayle**. Minimum tax?

Mr. **Howard**. And corporations.

Senator **Quayle**. And corporations. Mr. Rolland, I understand the problems you have had with the Treasury proposal on taxing the buildup reserves and on insurance premiums, and also, reluctance on taxing the health benefits, and other benefits, insurance benefits that employees are going to get.

I think it is an interesting assumption that you arrive at, that if in fact that they do away with that, that perhaps the companies will make the choice, well, they will just take the cash anyway, they will drop out of these plans, and in the long run, we will be much worse off.

What about the general concept, though, you know? Are we on the right road to talk about tax simplification, on a rather dramatic basis? If we are going to get in to it, there is a so-called tax simplification bill that passed last year, just a little cleanup bill in 1984. That cleanup bill was 1,200 pages long. It is just incredible.

What about the idea of moving in this direction? Are we going down the right road?

FOCUS ON DEFICIT REDUCTION

Mr. **Rolland**. I think the concept makes sense. I think in 1985, the principal focus of the Congress needs to be on deficit reduction, and I think tax simplification or tax reform is of lesser priority. But I do think the aim of tax simplification is a good one.

Now I know the problem you face, and that is when everybody talks about tax simplification, and it is the other guy's "goody" that you want eliminated, not your own, and I think it is going to be very politically difficult to move in that direction because there are so many special interest groups that will be defending their own tax preference, if you want to call it that, in the code.

But I do think there are opportunities to simplify the code, and I think there are probably aspects of the current Tax Code that are being abused, and I think those could be sought out. But I think you have got to be careful, like I was testifying on, not to throw out what I think are legitimate aims of the tax codes to effect some worthwhile social or public aim, not to throw those out, as you attempt to get at the abuses. I think the idea of using the tax codes for good public purposes if OK, as long as it is done in the right way. And I think, for example, the idea of promoting privately sponsored life insurance and medical plans, and pensions, is an aim the Tax Code can legitimately pursue.

So I do think you have got to be careful. I think you can get in to the tax shelter area and probably find areas of abuse, and I think you can find people that probably are not paying tax, that ought to pay tax.

I generally agree with the idea that anybody that is earning a reasonable income ought to pay some minimum amount of tax.

Senator **Quayle**. Would you put that minimum on the gross?

Mr. **Rolland**. I am not sure. I have not thought it through that carefully, but some structure to make sure that everybody at least bears some share of the total tax burden, I think is fair.

Senator **Quayle**. Do you want to amplify on that, Mr. Howard?

KEOGH AND IRA PLANS ARE FANTASTIC

Mr. **Howard**. I would like to add a point to your comment there, to encourage that capital formation. I think the Keogh plans and the IRA plans that we have are fantastic, because they are saying to the American public, "Hey, start early and build up a nest egg for when you get older. Just do not depend upon Social Security." Do something for yourself.

And for us to come back and say, "Well, that is a loophole," I do not think is right. I think we are on the right program when we encourage people and corporations to improve themselves.

Mr. **Rolland**. For example, the 401(k) plans. As I understand it, the Treasury proposals would eliminate the 401(k) plans. Many of us, within the last year, installed 401(k) plans at our companies.

In our case, we installed one. It was very popular, and I think we must have enrolled as many as 14,000 or 15,000 of our employees, all of whom under that plan are being encouraged to save their own money.

Those contributions are matched by employer contributions and so we now have most all of our employees participating in this plan, accumulating moneys for retirement, or some other future use, and in effect providing investment capital for a lot of other uses.

Now I think on balance, that is a good thing, and to eliminate that as an unfair tax preference, I have a lot of difficulty with. So I just think you have to be careful about how you move in on this Tax Code.

Senator **Quayle**. It is a tough call. To give you the other side of the coin—I am sure you have probably heard it—that they say that not everybody works for a good company like Lincoln, and their employees are taken care of, and they do a darn good job through incentives, but, you know, someone that is working for a small business down the road with 15 employees, or 35 employees, they do not have the same advantages. In a way—they are subsidizing for the special—the good treatment that they get at Lincoln National Corp.

That is the other side of the coin.

Mr. **Rolland**. Yes. Unfortunately, there are two sides to a lot of these issues.

Senator **Quayle**. Two sides. That is right. Mr. Bolenbaugh, do you have anything to add on the tax simplification?

PLANS INSTILL SELF-PRESERVATION

Mr. **Bolenbaugh**. I am all in favor of it. I also go along with what you are saying about the 401(k), IRA's, and so forth, because I think that down the road, there would be less strain on the Social Security system, as people go to these type plans, and are less dependent upon the Social Security system for their total income at retirement age, and I think it is going to be a real boon and a benefit. But to eliminate them I think would be a tragedy because it does instill self-preservation at retirement time, and people are looking at them very strongly, and it must be very successful for the amount of dollars that are being used for these types of plans now.

I do not think they should be jeopardized in any way, shape, or form because it gives every individual, like the 401(k), from 3 to 5 employees, up to 150 to 200 employees, the opportunity to contribute to their own type of retirement and get a great return. I am all in favor of them.

FREEZING MEDICARE WOULD CREATE INEQUITIES

Senator **QUAYLE**. Let me ask one quick question. Mr. Rolland, can we freeze Medicare this year? I know we have talked a lot about this. The proposal out there is to freeze it.

What would that do to the private insurance companies that look at this idea of cost shifting and things of that sort?

Mr. **ROLLAND**. Of course to freeze Medicare ignores the fact that the costs incurred by the providers of medical care continue to rise, obviously slower now than they did a few years ago, which is good for all of us. But there are inflationary pressures on hospitals and providers. To freeze Medicare means that those providers are going to have to cover those costs somehow, and where they can, they will simply shift the burden to the private sector payers.

So employers that are insured by private carriers, or employers who are self-insured, will ultimately pay those costs. So the freeze on Medicare, if you do that is, in my view, simply adding an additional hidden tax or burden to the private sector payers for medical care. It does not really reflect what the real situation is.

So that is my difficulty with the whole concept of freezes, is that it is maybe an easy thing to do politically, or maybe it makes some sense, in that everybody participates in it, but I think it does create a lot of inequities and unfairness in the system.

In the last analysis, it is only a temporary solution, and ultimately, you have got to deal with the real problems.

Senator **QUAYLE**. It is a problem, this freeze. It sounds nice that the concept of a freeze for certain things is certainly worthwhile, maybe in the appropriated accounts where we have discretionary spending.

But let me just take agriculture for an example. If we were to freeze, we would be freezing at very high loan rates and target price supports, which we think that ought to be reduced, if in fact we are going to get back to a more market-oriented economy. So I tell some of the freeze proponents that you have got to look at that aspect, too, and it is always, "Well, yes, but" and—but I think we do, we do have this—there may be some other things in Medicare that we can do.

And there will probably be some other savings, but I figured that that would probably be your answer, that you will just see this cost shifting and therefor the private insurer is going to have to pick up the tab.

Mr. **HOWARD**. But those farm support prices are not that high. If that dollar was not that strong. See, if the dollar went back to where it was, even at the beginning of last year, or—you would have a 30-percent increase in your soybean and corn prices like that, and move you above those loan prices.

So, sure, the loan prices look high but it is because of the strength of the dollar, and it is because of the deficit and because of all those foreign dollars coming in to this country.

VALUE OF DOLLAR PART OF PROBLEM

Senator **QUAYLE**. Yes. Well, I think that the value of the dollar is certainly a strong component of the problem that we have in exports. But you have also got to go back—the grain embargo contributed to the psychological impact, and the loss of expectations there.

Mr. **HOWARD**. That is right.

Senator **QUAYLE**. And also you have got to look at—and you can say it was because of the value of the dollar. I am not going to dispute that. But with our present price support system that we have in our agricultural community, Canada, France, et cetera, they just figure out what ours is and come in 5 cents under.

So if they come in 5 cents under, they go out to some country and say, "Well, here is what we can offer." It is, you know, self-defeating in some respects. Plus, we had bad weather. You add all those things up and—there is a credit crunch out there.

Marion Stackhouse told me in Indianapolis—he is president of the Indiana Farm Bureau—there are about a third of the farmers out there that are really in a difficult situation, and they simply cannot get the financing to provide for the fertilizer, et cetera, that they have got to go out and get this spring to get the cash-flow back next fall to pay off the debt.

And there is going to have to be some adjustments. The administration is saying, "Well, negotiate down the interest rates," or, forgiveness of 10 percent of the capital and we'll guarantee that. Well, the farmers thought that is not a bad idea. The banks do not like that that well. They are not so sure they want to take this takedown, even though they are going to get a loan guarantee.

So we are in a difficult situation on that, and one that will hopefully work its way out, because there are about a third of the farmers that are really in very difficult times.

Gentlemen, I could go on, but you have time commitments and so do I. Thank you very much.

I understand there is a final witness with the Fort Wayne Public Transportation Corp. Mr. David Keller. If he would come forward.

And Tom Blee from the chamber of commerce.

STATEMENT OF TOM BLEE, CHAIRMAN, GREATER FORT WAYNE CHAMBER OF COMMERCE

Mr. **BLEE**. Good morning, Senator. Thank you. Nice to be here. Nice to have you in the district, Senator. I am the board chairman of the Greater Fort Wayne Chamber of Commerce this year, and so on behalf of the chamber's 2,000 local members, I want to thank you for this chance to discuss the Federal Government's budget with you.

As you know, the chamber advocates programs and policies and legislation which will help local business create jobs and opportunities for our area residents.

In the past 16 months, our area has made some big gains in creating new jobs and increasing economic opportunity. Today, we see thousands of new employees in our local offices, and factories, and stores.

We are seeing shorter unemployment lines and longer bank lines, and while we celebrate this economic boom, we cannot ignore the sound fiscal policies that got us here in the first place. And we cannot ignore future policy decisions which will either sustain that recovery or defeat it.

I am speaking about, of course, Federal monetary and budget policies. I know the Congress faces an arduous task and a painful task each time it formulates a new budget, because the continuing struggle to balance the budget always produces winner and losers.

As you are well aware, a few decades ago, the Federal budget had a few extra slices of pie in it, and so we could finance new programs on that surplus.

EVERY FIFTH DOLLAR MUST BE BORROWED

In the 1970's, the supply/demand ratio flipped, and we no longer have a surplus. Now we have a deficit. And the Nation, of course, covers that deficit with borrowed money, and today, every fifth dollar the Government spends is a dollar it does not have.

Every fifth dollar spent is a buck the Government has got to borrow. And since Government spends frequently in madcap fashion, our debts pile up like a Fort Wayne blizzard, deep and crippling, and now we find we are snowed under by debt payments of $100 billion a year, and that kind of money, it seems to me, would create an awful lot of new jobs for Americans.

But clearly, I think, this Nation must, like other speakers before me have said, get out of debt if it hopes to retain its global economic preeminence.

I know you have heard this before, too, Senator, but if you ask a citizen how you get out of debt, he will say, "Well, you earn more, or you spend less."

Well, most people want to earn more as the solution to that problem but they do not want the Government to be put in the position of taking more away from them and calling it earning. They would prefer, I suspect, I know, that the government reduce its deficit by reducing its spending.

The chamber, of course, agrees with those people. Taxing more kills business investment. Show them that. Taxing more reduces work incentives. Taxing more decreases savings. All in all, taxing more will do more to halt recovery than anything else we could do.

The other option, of course, is to spend less. This is the option the chamber endorses. We say it is time to stop spending that fifth buck, the one we do not have, the one we keep on borrowing.

We think that there are ways to do that without throwing good programs on the scrap heap. I would like to recommend, briefly, three.

KEEP SPENDING AT FISCAL YEAR 1985 LEVELS

First, we do endorse holding the line on Government spending and keeping it at fiscal year 1985 spending levels for the next year, for 1 year. I know some people call this the hard freeze but the chamber's view is that a hard freeze is the only comprehensive and equitable way to handle this in a sort of nonpolitical fashion.

Every Federal program must shoulder some of the burden of the cuts, and no Federal program, none, should be considered a sacred cow. We would like politicians to stop arguing about the relative merits of one program over another, because, let us face it, every program helps someone, and so each has its champions, and every program requires money, and so every other program would like to have a little bit of that money, and they all have their adversaries. We know that. And the battle rages while the war we suspect is being lost.

The fifth buck is still borrowed. Americans continue to pay the moneylenders, while political brokers and brinksmen push us closer to the edge of national bankruptcy.

So long as we continue to square off and fight about whose cow should be gored, or whose cow should be milked, we will continue to lose opportunities to make a real impact on the deepening debt.

Suggesting to do this, we are going to substitute statesmanship for rhetoric, draw the line on all spending, hold no program harmless, zero out no program during the 1 year freeze, and specifically, freeze all cost-of-living adjustments in fiscal year 1986. Freeze all nondefense discretionary programs at fiscal year 1985. Freeze all civilian and military pay, and the defense budget authority at fiscal year 1985.

Reform farm subsidies, and adjust means-tested programs for inflation and for new beneficiaries. Adjust, we are saying. That could be either up or down, I suppose.

FOLLOW GRACE COMMISSION'S LEAD

The second step is to follow the Grace Commission's lead. Some of America's brightest people in the private sector told us how to cut Government waste across the board. It seems to us, we really ought to listen to them. I know that some bureaucrats have bellyached about the Grace Commission's recommendations saying, "It really will not save much, so why try it?" I think that attitude is disgraceful, and I use the pun intentionally!

We are just plain tired of financing studies to discover what mosquitoes do in their spare time. We would rather know what bureaucrats do from nine to five, I suspect.

If the folks in Washington, Senator, think Government cannot spend the taxpayers' money more effectively, and cannot stretch dollars further, and cannot run Government like a business, they ought to drop around Indiana for a while. We think we know some of how that is done. And so does the Grace Commission, which told us how to reduce wasteful spending by $424 billion over 3 years, and that is not pocket money!

CONGRESS BIASED TOWARD INCREASED SPENDING

America needs those savings. Finally, I would like to suggest that maybe Congress could get its own house in order.

There is still a congressional bias toward increased spending which is out of whack with reality. The chamber recognizes that increased spending advances the political agenda. It is difficult not to recognize that. But whatever the individual advantages, the initial imperative must supercede any and all of these parochial interests, and it has to do it now because the time is now.

Without a comprehensive and equitable spending freeze and without cost reductions through greater efficiency, without temperance of political agendas, the Federal budget is forecast to reach $1.3 billion by 1989, and our national interest payments will top the $200 billion mark, and I cannot cope with those numbers!

And with that, the Greater Fort Wayne Chamber of Commerce would urge every member of Congress to join us in this pledge: Spend the first $5 judiciously and effectively, so that the fifth dollar need never be borrowed at all. That, Senator, is our comments.

Senator **Quayle**. Thank you very much for a presentation filled with, unfortuantely, real irony, in light of what you say, tongue in cheek, is unfortunately, very true.

Mr. David Keller.

STATEMENT OF DAVID KELLER, ESQ., FORT WAYNE PUBLIC TRANSPORTATION CORP.

Mr. **Keller**. Thank you very much, Senator. I appreciate your making room for me this morning. I am here on behalf of the Fort Wayne Public Transportation Corp., and I think a number of our riders are here, just by their presence, hoping to speak silently for the corporation.

It is the oldest public transportation corporation in the State. It was organized in early 1968, after the former transit company, Fort Wayne Transit, Inc. found itself in increasingly deep financial trouble, and petitioned the city of Fort Wayne to organize a public corporation to take over the transit service here. We have been doing so ever since that time.

We have served hundreds of thousands of passengers, and the service that we provide takes many, many forms. I think if we look at children and see what we can do for children we can easily use our imaginations to determine what we can do for other people.

For children, particularly in weather like this, but also in good weather, we provide transportation to and from school. Some of the children are ineligible for yellow school bus service, and others attend schools without service, and so they rely on the PTC to get to school and back home. After school, the corporation takes children to doctors' and dentists' offices, to jobs, and to the shopping malls.

The children can ride the buses to visit grandparents, aunts, uncles and cousins, who might otherwise be only voices on the telephone.

In the summer the buses offer easy access to the zoo, to the swimming pools, and to the many other recreational facilities available throughout the city.

PTC HELPS BOTH CHILDREN AND ADULTS

Now again, what the PTC can do for children it can also do for adults. But there, the types of service provided are even more varied.

We are limited really only by our imaginations in visualizing the use that people find for our buses. For many adults, the service provided by the corporation represents the difference between economic dependency and economic self-sufficiency.

For others, it is a means to a normal way of life. It is the only affordable way out of the individual's immediate neighborhood.

At one time, our slogan was, "Let us be your second car," and we still serve as a second car for many families.

For other families and for single people, we serve as a first car. We all know how difficult life becomes when we find ourselves temporarily deprived of the use of a car. Imagine life without a car and with no readily available alternative transportation.

That is the life that would face many people in Fort Wayne if the PTC has to cut back its operation. The PTC helps relieve traffic congestion. It reduces air pollution. It is a factor in attracting new businesses.

In closing I would like to make two points. In terms of the figures that were bandied about this morning and in the press, we are not seeking a great deal of money, and the money we are seeking is not money which will not have a return.

Last year, the PTC received $1,400,000 in Federal funds, but this represented a significant part of our budget. Studies show that for each dollar spent on transit, between $3.50 and $5 is generated in the community in transit wages and in purchases from transit suppliers.

Much, much more is generated in terms of the economic and social benefits made available to riders.

Thank you again, very much.

Senator QUAYLE. Thank you, Mr. Keller.

[The following material was submitted by Mr. Keller:]

FORT WAYNE PUBLIC TRANSPORTATION CORPORATION

A LOOK AT THE FUTURE

1984

The Fort Wayne Public Transportation Corporation is presently funded from the following sources:

FARES:	20.4%	($919,430)
FEDERAL:	31.1%	($1,401,295)
LOCAL TAXES:	28.8%	($1,297,395)
STATE:	16.5%	($743.599)
MISCELLANEOUS:	3.2%	($145,406)

This funding supports a $4.5 million dollar budget for a system that

...runs 1.3 million miles
...drives 45 buses at peak times
...employs 68 drivers, 17 mechanics, 19 office staff
...serves Fort Wayne area and New Haven, Indiana
...carries over 2 million passengers per year who are

69% transit dependent

41% with incomes under $10,000

What happened in 1984?

When the cuts came in the first Reagan term, we were frozen at 1982 operating levels - $1,261,166. There was a relief clause, however. We could trade some of our capitol money for operating money at the rate of 3-for-2. We did that for 1984. So we received $1,401,295 of Federal Funds for operating use.

The State of Indiana provides 2/3 match of the Federal Funds.

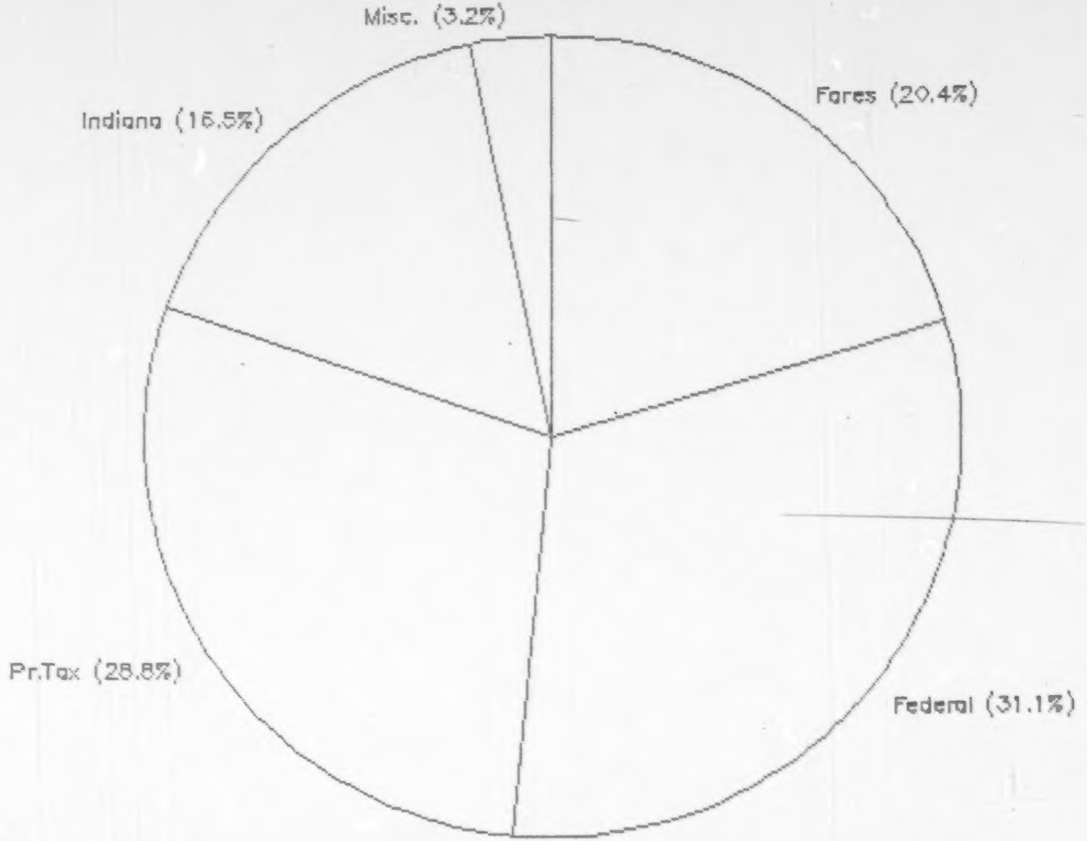
In 1984, we received only $743,599 in state funds because it had been necessary to borrow ahead in past years from the state. In 1984, we tightened up and caught up.

We also pulled in all non-productive routes. These routes were not making the money we needed. We left many dependent citizens stranded. We layed off over 30 employees. We cut about 1/3 of our service. We instituted many money saving programs.

At our public hearings we heard from many dependent bus riders who need the buses as their only means of transportation to travel to work, to the doctor, to purchase food. There also were the voices of those who cannot drive if they would choose to: those under sixteen and those too old to drive cars and those who are physically unable to drive.

FORT WAYNE PUBLIC TRANSPORTATION CORP.

1984 FUNDING



What happens in 1985?

The 3-for-2 trade of capitol money for operating money was rescinded. We will receive only $1,261,166 in Federal Money.

The State of Indiana grants us only 2/3 of what the Federal Government sends to us. We have available about $980,000 in State money but can only draw down $840,777. We are lobbying our State Legislators to change the 2/3 policy. They seem open to change.

BUT...change takes time. Changing laws and policies takes times.

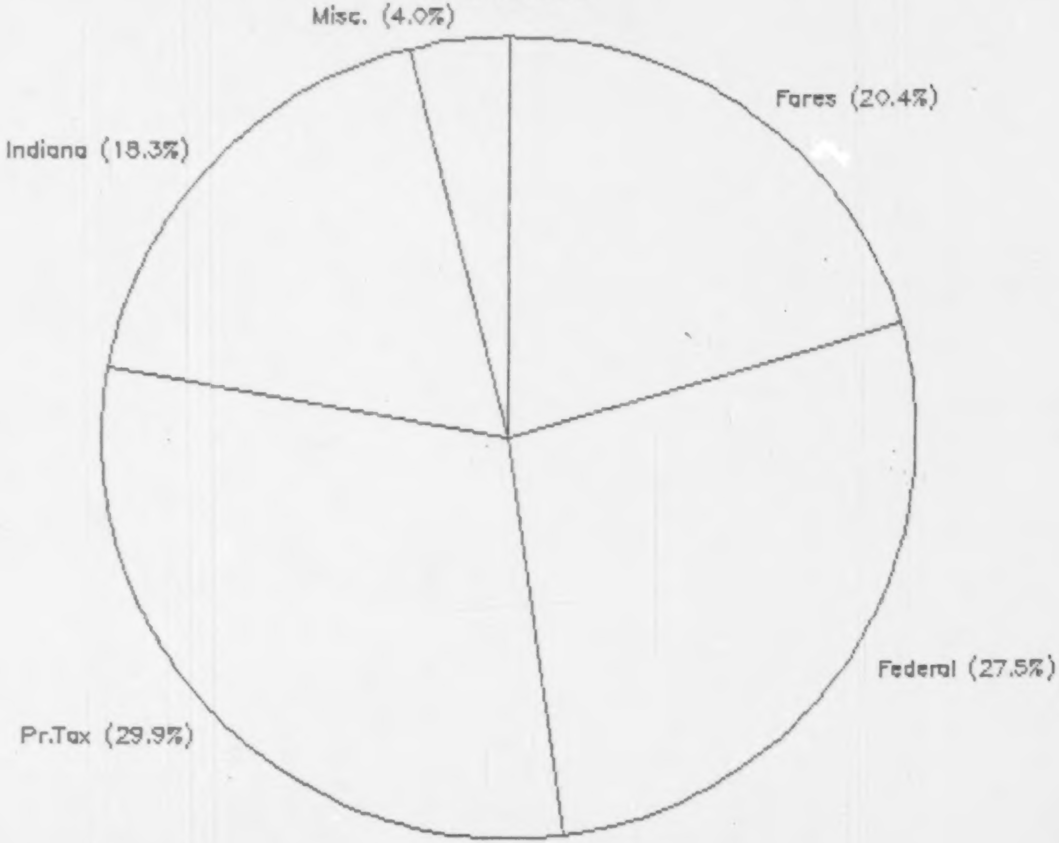
We have met with our staff and with the Board of Directors and have worked out a budget - down $235,000 from 1984 - that we hope we can live with in 1985.

We are working and planning to make 1985 without cutting any more service from our citizens.

Any hope of expansion is bleak because expansion takes time. We have the presence of a new company, G.M., coming to our area. The support businesses for the G.M. plant should bring us an increase in our ridership and therefore, an increase in our revenues. BUT...we do not have the money to meet these needs of our citizens.

FORT WAYNE PUBLIC TRANSPORTATION CORP.

1985 FUNDING



What happens in 1986?

OPERATING MONEY: (Capitol money will decrease which could hurt our maintenance but we speak only to the operating money.)

The Administration proposes to cut our operating money by 2/3.

This would put our Federal Grant at about $420,000.

Our State grant (if the 2/3 remains) would be about $280,000.

We would need to reduce our system to about 24 buses at peak.

This would reduce our farebox revenue to about $500,000.

This assumes that local property tax would remain the same. If we cannot send buses to certain areas, tax payers could petition to remove themselves from the tax rolls.

We would be servicing about half of the citizens that we now serve.

The impact on the local ecomony would be significant.....

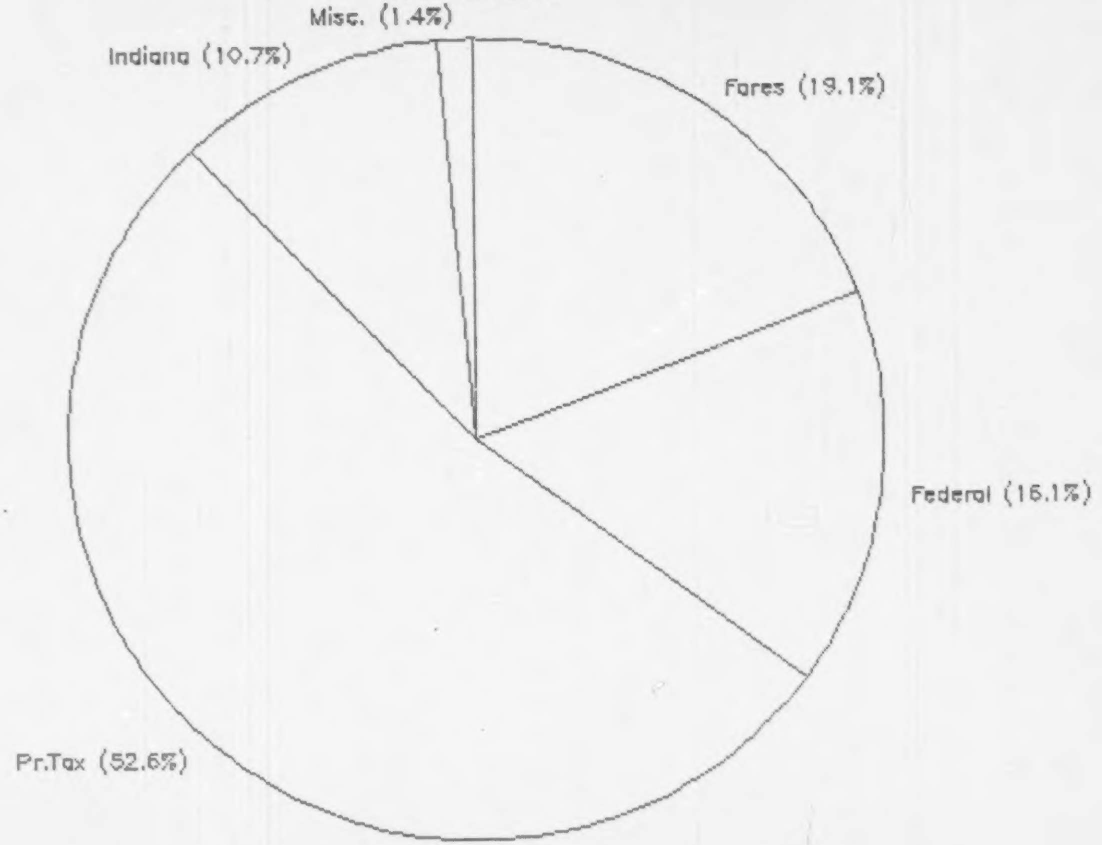
unemployment would increase
retail stores would be affected
hospitals would be affected

AND WHAT ABOUT 1987?

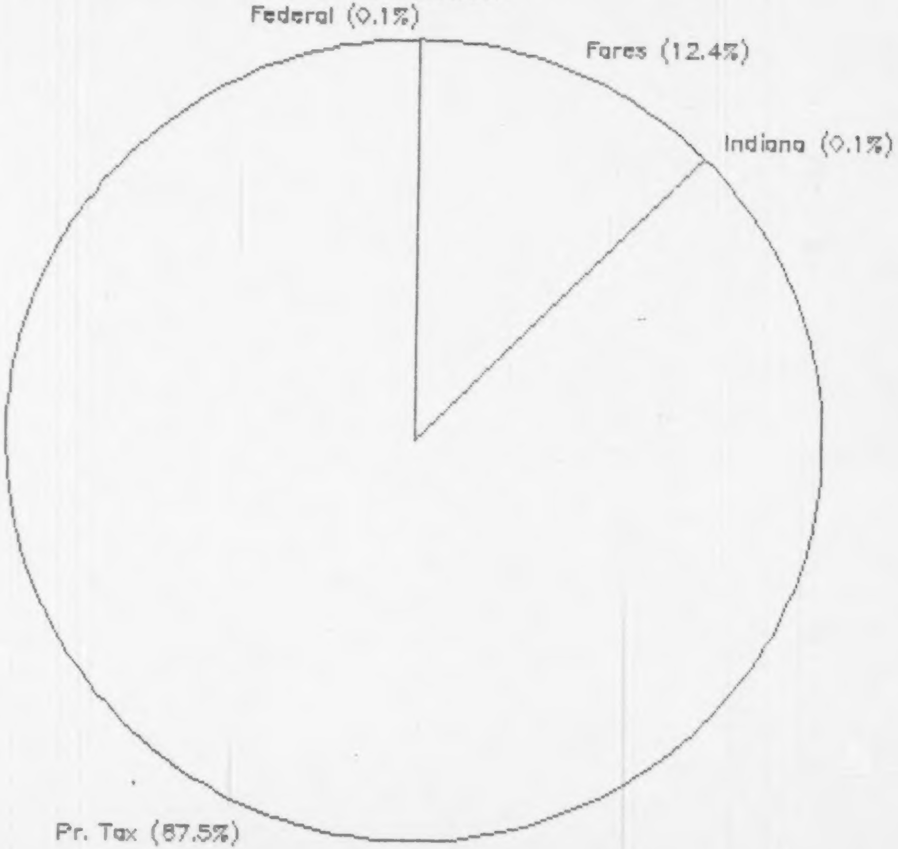
The Administration now proposes to cut out all operating assistance from the Federal Government. We would probably be forced to reduce our system to about a 12 bus peak, if it existed at all.

At the present, with our fares at 75¢, riders are only paying about 1/5 the cost of the ride. Few could ever afford the full fare of $3.50.

FORT WAYNE PUBLIC TRANSPORTATION CORP..
1986 FUNDING



FORT WAYNE PUBLIC TRANSPORTATION CORP.
1987 FUNDING



FORT WAYNE PUBLIC TRANSPORTATION CORPORATION works with Drivers and Mechanics from the AMALGAMATED TRANSIT UNION LOCAL 682 - their President offers their opinions............

Amalgamated Transit Union Local 682
FORT WAYNE, INDIANA

Ways and Means Committee,
Indiana State Legislature
Indianapolis, Indiana.

February 11, 1985

Mr. Chairman and Fellow Members of the Ways and Means Committee:

My name is Barton Hofherr. I hold the office of President of Local 682 Amalgamated Transit Union. Local 682 represents 85 operators and mechanics of the Fort Wayne Transportation Corp.

I am here to ask your support in changing the State Mass Transit Funding Formula. As you have heard in previous testamony, our service would be drastically cut if nothing is done to correct our financially troubled system. We have already experienced a 33 percent reduction in service in February of 1984. Our property is not alone in facing these and continued drastic reductions in service levels.

My concern is not only for the job security of myself and my fellow co-workers, but for the thousands of transit employees, and for the hundreds of thousands of daily riders, serviced by Mass Transit. With their only means of transportation gone, the elderly, the handicapped, the students, people not capable of operating, or unable to afford a private vehicle, and the down-town worker whose parking fees prohibits driving a personal car; all these people would be vertually left stranded at their homes. Taxi fares are too expensive for daily use. Family and friends can only be counted on for a limited number of rides. How are these people to remain mobile? Without a cost efficiant means of travel,these people will no longer be able to shop, see their doctor, visit a friend and the list goes on and on. But most important of all, travel to and from their place of employment could be lost. How many jobs would be lost? How many of these people would be taken from tax rolls and added to the unemployment and welfare lines?

Amalgamated Transit Union Local 682
FORT WAYNE, INDIANA

Safe relaible Mass Transit is the only answer to the question of how to keep all of the public mobile. Is there any one here present, whose life would not drastically change for the worse if your only means of transportation were suddenly cut off? In these days of " two car families " I to have a hard time comprehending life without transportation always at hand; but all it takes is the need for the family car to spend a few days at the shop, and it brings into sharp reality, how dependent I am on being mobile.

I thank you for this opportunity to voice my concern on this issue and I hope that as you, the committee make your descions on the Funding Formula, take into consideration what Mass Transit means to the lives and livelihoods of hundreds of thousands of fellow Hoosiers.

Sincerly,
Barton Hofherr
Barton Hofherr
President, Local 682
A.T.U.

Senator **Quayle**. I can assure you and your riders here, I certainly understand the importance of the services you provide, and appreciate that.

On the Federal grants, you use this for operation subsidies and capital expenditures just for buses? Is that what it is relegated to, just those two items?

FEDERAL GRANTS USED FOR PHYSICAL FACILITIES

Mr. **Keller**. No. We use it for capital expenditures in other areas, in providing physical facilities as well as the buses themselves.

Senator **Quayle**. Physical facilities for the buses?

Mr. **Keller**. For the buses. We just recently completed a renovation of our facility which was quite old, and thoroughly in need of renovation. We have put in new maintenance equipment to improve the maintenance of the buses. We have been active in the renovation of downtown Fort Wayne, in part, with Federal funds.

Senator **Quayle**. Oh, OK. So is it capital expenditure funds, then, that you get?

Mr. **Keller**. Yes.

Senator **Quayle**. That you have used part of that for the redevelopment of downtown Fort Wayne?

Mr. **Keller**. Yes.

Senator **Quayle**. And not just for the——

Mr. **Keller**. Not just for buses; no, sir.

Senator **Quayle**. OK. And then you also get the operation subsidies?

Mr. **Keller**. Yes.

Senator **Quayle**. Which is more important to you?

Mr. **Keller**. They are both important.

Senator **Quayle**. Come on! OK.

Mr. **Keller**. They are both important and I suppose we might be able to live without buying new buses for a while, but it might be very difficult to live in a responsible manner, a manner that would serve the community without the operations subsidies.

Senator **Quayle**. OK. Thank you. Mr. Blee, let me ask you a question. I heard your friend and colleague, Dan Smith of Muncie, who is now the national chairman of the Chamber of Commerce. I heard him on Good Morning America. He was not on. It was a sound bit. You know how the electronic media does it?

Mr. **Blee**. Yes.

Senator **Quayle**. The chamber out there had a meeting evidently yesterday, and they have come up and they have said that they are willing to take significant cuts—I think that is the word he used, and do not hold me to it as I was listening as I was getting ready this morning. He said significant cuts in small business loans, and also the Eximbank. How would that fly in Fort Wayne?

FREEZE ONLY POLITICAL EXPEDIENT WAY

Mr. **Blee**. I think the chamber, business in general, wants to take the position that, as I said, everybody's ox had better be gored. It is an impossible situation to sit in the Congress and expect to have budget cuts with the incredible number of special interests which are involved in this nation and to try to do anything which would be equitable and not just purely political, without doing something across the board.

I do not think you can sit here on one hand and say, "We want a freeze except we do not want that little program touched."

I think it is just nonsense. It is politically impossible. I think the only politically expedient way to do it is to freeze it, and that way, everybody stands in the fire but nobody is the only one standing in the fire.

Now I realize that it is politically impossible to attack large programs and let some others go. I do not think that is feasible and I do not think it is fair.

Senator **QUAYLE**. He was talking about cuts. I applaud him. He said it was not an easy meeting that he had with his constituency there. But I think this is a good example, where you come forward and say, "All right. These businesses are affected by the Eximbank, and there are a lot of businesses, a lot of bigger ones that really take a lot of money out of there, and small business loans." They are saying, "OK. From our constituency, here is what we are willing to——

Mr. **BLEE**. As long as you do not lose sight of the fact that it is business which creates the income, and that has still got to be the goose that is laying the golden egg, and you do not squeeze eggs out of the goose, for heaven's sakes, you know. You have to care for it, and it will care for you. So that is still true, and so there is no reason to try to—that is why, you know, tax reform is so important. Great heavens, we are just—you and I went to law school together. OK? We had the Yeagans tax course, right?

Senator **QUAYLE**. Screaming Larry.

MONSTER HAS BEEN CREATED

Mr. **BLEE**. All right. Now he is the only guy in the world I think who understands the Revenue Code, now, as it exists. The Tax Code has become so complicated—you talk about the 1984 Tax Simplification Act. That was designed, of course, to cure the abuses which are created by the loopholes, which were created by the tax preference, which the Tax Code has created in the last 40 years. The whole thing is totally out of control. I sat in a room with three accountants and two lawyers, one of which was a tax attorney, and popped the question on property depreciation and nobody knew the answer. You cannot—there is no answer. It is just not there anymore. It is not there. You have created a monster, that only the people who wrote the legislation have a glimmering idea of what they have done, and you have got to solve that problem.

Senator **QUAYLE**. My wife and I were both in law school down there and took all of Yeagan's courses, and the two of us trying to sit down and figure out our tax forms, and they're not terribly complicated. We have fairly straightforward taxes. We have income, we do not have a lot of outside income, and try to fill this out, and I mean to tell you it takes a lot of time, and April 14 is not a terribly pleasant day around our household.

Mr. **Blee.** You heard from a financial genius, Bob Howard. He is, honestly, a financial genius, okay? Bob is probably the only guy I know who would be able to fill out his own tax return, and he says he takes 200 hours to do it. So I agree, tax simplification is critically important.

Yes, the freeze, and too, we have got to cut the spending. Man, I sure would not want to see that put off very much longer. It is an idea whose time has come, and come and come and come, and we are really there.

Senator **Quayle.** Yes. Look at the general welfare of the community and the general welfare of the State of Indiana, and the people of Fort Wayne, and the whole country, is dependent on what we do on this budget to get the economic growth and the jobs and the opportunities.

Mr. **Blee.** You cannot afford to let people think they are being cheated by their Government, Senator, because that is when the system bucks.

Senator **Quayle.** That is one of the reasons I am trying to make an extraordinary effort just to get around the State and hear people's input. I appreciate your input.

I would like to include in the record two letters, one from Ms. Buckmaster, and the other from Ms. Rowe, at this time.

The hearing is adjourned, and I am on my way to South Bend. Thank you.

[Whereupon, the hearing was adjourned at 11:08 a.m.].

[The following letters and statement were submitted for the record:]

bruary 11, 1985

Senator Dan Quayle
Federal Building Room 353
Fort Wayne, Indiana 46801

Dear Senator Quayle:

I would have liked very much to be in the public hearing meeting this morning on the transit funding. It is unfortunate that the meeting is scheduled during the hours that many or most of the public transit riders like myself are at school or work. Since it is not possible for me to appear in person to lend my support to the need for continued financial funding for the Fort Wayne transit system, I am asking a friend to hand carry this to you.

I realize that it is necessary to make budget cuts, however it is hard for me to accept the premise that it is more important to keep people circulating in space than for earth-bound people to be able to get to work or school each day.

As a long time daily bus rider who depends on public transportation to get back and forth to work, I strongly urge you to reconsider the transit funding cuts.

I would appreciate your support in this important decision.

Sincerely,

Virginia Buckmaster

Virginia Buckmaster
6108 Graymoor Lane
Fort Wayne, Indiana 46815

February 14, 1985
Fort Wayne, IN

U.S. Senate Budget Hearings
Senator Dan Quayle
Federal Building
Fort Wayne, IN

The Honorable Senator Quayle:

My request for consideration deals only with a very small segment of the U.S. budget.

> I request legislation which would require any foreign aid authorized by Congress be products made, crops grown, or raw materials found, only in plants, farms or mines within the continental limits of the United States. (The recipient-government would submit requests for the products or services.)

With our massive trade deficits, further outflow of currency is undesirable. Any country's money as such, is merely paper, having value only in what goods or services it can provide. Once money is deposited it may be transmitted to anyone, anywhere, in a matter of seconds, with no benefit to the original "giver" whatsoever.

This legislation would please both management and labor. Automatically funds would be inserted into the business or agriculture markets at no additional costs to the taxpayer. It would not deprive any country of our assistance. The U.S. Treasury would even be the recipient of tax dollars of those supplying "aid" products.

Such legislation has a "Public Relations" benefit. If we send $10 million dollars in currency or credits to a "Needing" country, workers in that nation would never see or know about our tax dollars. If, instead, we send 500,000 shovels or 15,000 "Jeeps" or five million pounds of cheese with U.S.A. stamped on the items, "John Doe" will know the U.S.A. gave him the opportunity to help himself.

The foreign government agency person, while of course, perferring cash or bank credits, could approach "John Q. Public" with our product plainly stamped "USA" using the thought, "Look what a fine product I was able to get for you." John Q. is then happy with both his government official and the USA.

In summary foreign government officials would dislike, but could be persuaded to accept products rather than currency. On the positive side tax payers would know the recipients of our aid might see our gifts. Our farmers and corporations (both labor and management) would be estatic with the additional business. Finally, we have more American workers back on the job paying taxes instead of collecting unemployment or welfare due to job exportation!

Sincerely,
Bette Rowe
Bette S. Rowe
Rowe Industries

STATEMENT OF DIANN SHAPPELL, EXECUTIVE DIRECTOR, NORTHEAST AREA III COUNCIL ON AGING

Senator, Quayle, thank you for inviting me to this hearing. My name is Diann Shappell, and I am executive director of Northeast Area III Council on Aging. "Area III" is a private, not-for-profit corporation designated to serve the 76,000 senior citizens in our nine county service area. We receive about 1.7 million dollars in federal funds annually.

Older American Act funds account for 1.1 million of our budget, Social Service Block Grant monies for .5 million, and the remainder is received through the Department of Energy, for fuel assistance, and the Department of Labor, for senior employment.

For you to understand how budget cuts would affect the people 60 and over in Area III, I feel it is important for you to know what services we provide and the characteristics of our clients.

Area III directly provides the following services: Congregate meals, homebound meals, fuel assistance outreach, employment, case management, the nursing home pre-admission screening program, homemaker/handyman service, friendly visiting, health education, information and referral and advocacy.

We fund nineteen other organizations for a large range of elderly programs including transportation (our number one priority); legal services, nursing home ombudsman; prevention of abuse, neglect and exploitation; day activities; senior center personnel; home health aides; and other direct services.

Our service area includes the counties of Adams, Allen, DeKalb, Huntington, LaGrange, Noble, Steuben, Wells and Whitley.

When we speak about the elderly population and the clients we serve, please keep in mind there are two generations of seniors. Each generation may have different needs and areas of concern.

First, our clients in their early 60's, sometimes older, may need employment, activities at senior centers and nutrition sites, and greatly benefit from health education programs, exercise, information and referral services, assistance with tax forms, etc. This age group is the core of our volunteer network. This age group also tends to have more men in it, may still have a car, and is more apt to have other sources of income than Social Security.

Those in the older range are more typically women, living alone, and having more chronic illnesses.

These two groups have distinct needs. Not only can we directly assist the younger group, but we can teach them to be healthier, thereby reducing their health care costs, and benefiting the entire society. Our largest program, the congregate meals at nutrition sites, is meeting much more than just dietary needs. Socialization at the sites is very important. Dr. Robert Butler, chairman of geriatrics and adult development at Mount Sinai Medical Center, New York, states that, "better eating habits and regular exercise keep that living machine well-oiled for longer mileage." He emphasizes the importance of physical, personal and social fitness. "A reason for being - that is crucial." By assisting the senior citizen in wellness programs and other socialization, he/she is very likely to be able to reach out to others, many times becoming volunteers for many organizations such as hospitals, Red Cross Centers, in churches and many more.

For those vulnerable, older senior citizens with chronic health problems who are homebound, our duty is a very difficult one. Many of our programs become the difference between institutionalization or not. In-home services (our number two priority) are vitally important - homebound meals, homemaker services, friendly visiting, home health aides. It is much less expensive to provide these services than it is to pay over $1,200 a month for custodial care in a long-term care facility.

With only about $26 spent for each senior citizen in northeast Indiana by our agency, we are oftentimes faced with the decision of who needs these services the most. Homebound seniors may have to wait weeks before receiving meals or a homemaker. By stretching ourselves so thin, we are not always able to prevent situations from becoming emergencies.

A survey our agency did indicated that 3,000 of the 5,400 respondents had chronic illnesses. Half were concerned about their health. Nearly 19% felt medical expenses were a financial burden; 24% had no one to take care of them if they were ill. I feel that by understanding the scope of the older citizen's problems, you are better able to see what will affect them when cuts and freezes occur in the budgets of these programs or other programs in which they participate.

Census statistics show that over 6,700 seniors in Area III are below the poverty guidelines - $415 a month for one-person households. Our survey indicated that 4,400 of the 5,400 responding had Social Security as their main source of income.

I feel that any cuts in Medicare, Medicaid, or Social Security could have the affect of making these low-income people still maintaining themselves to give up their homes, because they will no longer be able to afford the luxury.

I want to also stress not only the vital importance of Northeast Area III's programs, but of other programs who serve the elderly. Cuts in legal assistance to the poor will affect some of our clients. Assistance in receiving disability benefits, social security benefits, may not be possible. Cuts in veteran benefits will also affect many of our clients.

I'm very concerned about these two issues, and I don't know what their options will be if these services are not available. I have spoken with several spouses of veterans who are now being told their Alzheimer victim husbands must be removed from VA nursing homes. They were originally told their husbands could remain there the rest of their lives. If cuts in VA benefits are going to be initiated, it might be better to select a date of service (say 1980) that no non-service related disability veteran who served after 1980 could receive benefits in a VA facility. The elderly veteran has always been told he/she deserved these benefits.

When considering where cuts or freezes should be made, I must point out the dramatic increase in the 60 and over population. The number will continue to rise, especially those over 85. Our agency, therefore, is asked to serve a larger and larger percentage of the population each year. Even a freeze, in actuality, means a cut. Our expenses have dramatically increased in the past years - liability insurance costs have doubled in the last year, postage has increased, social security employer withholding is increased.

I think Medicaid expenses could be reduced by instituting greater tax incentives to those keeping an elderly person in their homes. This would also lessen the need for some supportive services.

The answers do not all rest with the federal government. A greater role in the private sector is needed. Incentives will need to change from early retirement to late retirement. A program like "reverse annuity mortgages" could also assist elderly in maintaining their independence. Our clients contribute about $250,000 a year to support our programs, and

Lastly, I want to emphasize that older people have a lot to give our society and are willing to give. For those who are not capable any longer, we must advocate on their behalf. We cannot turn our backs on them. Each of us needs to keep in mind that the older segment of the population are our parents and grandparents who have worked hard, educated their children, fought for their country, and deserve to live a life of dignity and independence. They did not have IRA's and pensions to look forward to.

I am confident that the problems with the budget will be handled in a fair manner, and that vital services will not be cut to those most in need.

Thank you.

ECONOMIC IMPACT OF THE FY 1986 BUDGET PROPOSALS ON THE STATE OF INDIANA

THURSDAY, FEBRUARY 14, 1985

U.S. Senate,
Committee on the Budget,
South Bend, IN.

The committee met, at 2:01 p.m., at the Federal Building, South Bend, IN, the Honorable Dan Quayle presiding.

Present: Senator Quayle.

Staff present: John Palffy, chief economist; and Greg Zoeller, legislative assistant.

OPENING STATEMENT OF SENATOR QUAYLE

Senator Quayle. I will call this hearing to order and try to proceed, because I'm going to have to leave, probably as close to 3 o'clock as possible, which gives us an hour. I want to make sure that we get as much testimony and as much conversation as we possibly can.

Looking around and seeing who is here, I believe we can go ahead and begin. I'm just going to go down my list and if you will occupy the seats over here to the left—we will try to get the first four on my list, Mayor Perron, Chris Murphy, Larry Hyde, and David Post. Would you all please come forward at this time.

OK. Why don't we go ahead. We will start with Mayor Parent. We're delighted to be here— in the snow and everything—we talk about freezes and freeze proposals; I think the weather we have today is somewhat indicative of what we may have to do with the budget.

I appreciate you coming and I think we will just go ahead and let you proceed. We'll take Mayor Parent, Mayor Perron, Larry Hyde, and Dave Post and then we will ask a few questions. Please proceed at your pleasure.

STATEMENT OF HON. ROGER O. PARENT, MAYOR, SOUTH BEND, IN

Mayor Parent. Thank you very much. First of all, I appreciate you being here in South Bend, in this whole area, to talk with us and hear our views about the proposed fiscal year 1986 budget, deficits, and all that that implies to the economy.

I want to apologize for being a little late—I thought you were going to be late, Senator.

Senator **Quayle**. Now we know whether it's the mayor or the Senator who's going to be late. We were lucky to be here when we got here.

COUNTRY GREW STRONG BY HELPING ONE ANOTHER

Mayor **Parent**. In recent days the Federal budget deficit debate has intensified and there's one line of thought that bothers me a little bit. That line of thought is expressed in these questions: Why should one group or one section of our country care about the other? Why should farmers care about mass transit, and why should city dwellers care about the farmers? Why should the North care about the South; why should the West care about the East?

I believe that our country grew strong through the idea that different sections, different groups would help one another and in this manner become stronger. And history tells us—tells me—that it was good for the Federal Government to assist in the building of railroads; that it was good for the East and the Midwest to pay for land reclamation projects and water projects in the West. Through this manner we grew strong as a nation, and I think we grew wealthy, as well, because of that.

DEFICITS PRESENT DIFFICULT CHALLENGE

We face a really difficult challenge today with these projected budget deficits, but I'm convinced that if we want to approach this together, positively and in the right manner, that we can solve these deficits.

These deficits are the concern not only of you, and the other Senators in Congress, and the President; these are the concerns of all of us. They are very serious. For example, the projected deficit for 1985 is $222 billion. That is more than all of the payments that go to Social Security, and it's substantially more, obviously, than the $8 billion that goes to student aid. They are important.

I'm concerned that they are going to be, and are, destabilizing to the economy. For example, if we have a recession from now to 1990, Paul Volcker says that it's likely that if we don't attack the deficit, that they will go up to $300 billion.

Also, the interest payments on the Federal deficit are projected to go something like $159 billion in 4 to 5 years. That in itself is a very substantial bite on the buying power of this country.

So given the recession possibilities, the very high interest payments, and also the balance of deficit which, by the way, hits farmers very hard because the very high value of the dollar, compared to other currencies, means that our exports are very expensive and imports inexpensive, so we are losing jobs, dollars, and markets as a result of that.

I think that the Federal deficit ought to be reduced not only by $51 billion, but by $100 billion or more. It's that serious to us—to me—here at the local level, and we are more than willing to do our share; we're more than willing to make our sacrifices.

NO SURPLUS IN SOUTH BEND

There has been some disturbing talk on the part of Federal officials—and I'm not including you in this.

For example, there has been the talk that somehow we have surpluses at the local level. I'll tell you right now there is no surplus in South Bend of moneys; and the State of Indiana's surplus, if you remember, was generated primarily through the tax increase that was enacted to pay our bills during the previous recession.

I think that there's a lesson to learn here, and we've cut very popular programs that were less important than police and fire; we've raised taxes and we've done our job. Now, if we were to run a 25-percent deficit at the local level, at the State level, people would throw us out of office and hang us on the nearest lamppost. They literally would do that.

Now, you know Indiana certainly as well as I do. We're, fiscally, a very conservative State, and I'd like to express the viewpoint today that we feel strongly that these deficits are destabilizing for all of us and have to be addressed, and even sooner than has been proposed by the President.

Talking about the freeze on the Federal budget, I think the freeze has hurt us today because people assume that it will be on all programs starting in 1985. Well, they're not going to be.

There have been proposed major cuts in various programs and major increases, increases in national defense.

So all in all, throughout these discussions, I think we would do a lot better if, in fact, we said that there will be cuts, they will hurt, and that we will be sympathetic to the people that will be hurt. At least, that would make the cuts easier to accept.

Also, while we are proposing cuts, it seems to me we have to pay attention to the goals that not only President Reagan, you and all of us accept. I think we really have to be careful of these goals, and some of them—we want people to be independent; we want a strong economy; we want the very best national defense, and as I go through what I consider to be an alternative deficit reduction plan I'm going to keep those things in mind.

I will go as fast as I can, trying not to duplicate and trying not to say everything that maybe I would like to say at this point.

ELIMINATE REVENUE SHARING AND THE SBA

First of all, in spite of the fact that it would hurt very much, I go along with the elimination of general revenue sharing funds and the Small Business Administration. Let me tell you why.

We're always here, we're saying that we have to make sacrifices. This would be a big sacrifice for us. It's the most popular city and local program—it certainly is the most popular to me, as mayor, because there are very few strings attached to that General Revenue Sharing Program.

It means $1.55 million for us. We pay pensions for police and firefighters with those moneys. It would mean about a 6.4 increase in our tax levy, something that we do not have the authority to levy. We have to go up to the State to get that kind of authority or find some other way of funding. It would be very, very difficult.

The SBA is very important, as well, but I think that if we at the local level are going to be credible in an attempt to meet the budget deficit, then we have to make sacrifices.

Those are the ones that I'm willing to make, and I am asking the community of South Bend to make.

The other side of the general revenue sharing is that I always wondered, even though I go to the Federal Government to get all the money I can get for the people of South Bend, I always wonder why you in Washington also worry about paying pensions of police and fire that had been mandated, in fact, by State governments.

It seems to me that the Federal Government can really work toward its goals of economic revitalization and for strong cities by more focused programs than general revenue sharing funds.

So, it's tongue in cheek because I'm always going out to get all the money that I can get. In this case, I would be willing to go along with that.

DO NOT CUT HOUSING PROGRAMS

I would not be willing to go along with the cuts in various housing programs, and these are not detailed in here. We may have an amendment to this document that I gave you, Senator, later on.

But the Community Development Block Grants are the funds that we utilize not only for neighborhood housing kinds of activity, but they are the underpinning of most of our economic development activities.

Also, I would be against changing the amounts of money, and also against changing the formula which would, in fact, give us—the entitlement cities—much less money.

KEEP MASS TRANSIT AT THE SAME LEVEL

Mass transit, I think, should be kept at the same levels. Our local bus company, which we call TRANSPO, could not survive in any kind of viable way if we were to take away 60 percent of their funds.

You know, people take the bus to go look for jobs; they take the bus to go to work; they take the bus to shop; they take the bus to go to doctors' offices, and oftentimes those are the older people in the community, those who have less resources. So if we want people to work toward economic independence, we have to provide some kind of public transportation for them.

We really would have no way of picking up the tab on that locally, that I know of; again, it's the kind of thing that the State might want to review, but if we're going to accept some cuts, we obviously cannot accept all of them at one time.

DO NOT CUT HEALTH CARE, AFDC, AND FOOD STAMPS

Health care, AFDC, food stamps, legal services—I don't think these should be cut. They have been cut very substantially in the past. For example $10 billion of service cuts have been instituted in Medicare and Medicaid alone. Obviously, children have to be in good health to learn well, and people have to be in decent health to go look for work.

NATIONAL DEFENSE BUDGET

I would like to briefly address the national defense budget. Nobody has been proposing that the national defense budget be cut below the 1985 fiscal year. As a matter of fact, the administration first ask for about $40 billion over the fiscal year 1985, then proposed a reduction of $9 billion in that.

It seems to me that by most professional accounts, the Defense Department is just a seriously troubled enterprise. It has some structural flaws. It has three major service parts of the military, they compete; they have their own agendas; the unending succession of spare parts and the recent Army's Division Air Defense System which is now threatened with cancellation at $1.2 billion.

These are just examples of the Defense Department's real problems; and I think that most Americans accept the need for a strong defense. We obviously all have that goal. I just don't think that throwing money at the problem is going to resolve it.

I think there needs to be a major modernization, not only of the weapons system which we're in the process of doing, but also on the organization of the military.

I would accept the strategic defense initiative, the Star Wars, as something which, at the moment, is more in a stage of research than anything else, and also the MX missile, but I don't think we need to spend appropriate, or authorize $31 billion. I have trouble with all these different terms that are utilized in this business—for fiscal year 1986. I may not be the only one—but I would propose the elimination of the B-1 bomber, the same level of production of nuclear warheads, a freeze on expenditures for overall research, and a freeze on military construction costs and funds.

I certainly recommend the implementation of the Grace Commission's recommendations in the study concerning weapons systems acquisition and—I know you, Senator, have done a lot of work on that. You are to be commended for that.

TAX CODE NEEDS MORE RESTRICTIONS ON PREFERENTIAL TREATMENT

I also would seek more restrictions on the preferential treatment in the Tax Code, and I'm not going to go into those because I'm using too much time.

The next item is that of taxes. I think we have to have courage on this business of taxes. We could save about $18 billion through more restrictions on preferential treatment in the Tax Code. If we can levy through—I would choose an energy tax on crude oil which would generate close to $20 billion a year or so—but I would extend the excise tax on cigarettes, for example, which really would not change much of anything, we're already paying it; and I would increase taxes on alcoholic beverages.

These cuts, if one wants to go through this document here, would amount to approximately $102 billion. I feel strongly that if we approach it in a fair manner, where all of us take some cuts that are really hard to take, and then we apply the same theory to those segments of the Tax Code where the preferential treatment is given, apply the same thinking that we apply to the poor, which is, "Let the market forces go at work." They will benefit, too, from those kinds of taxes, just as it's assumed that the poor will benefit from the old trickle-down theory.

I think we have a tough job to do, and I'm really thankful that you have taken the time and trouble to come here and listen to all of us. Let's get on with the job; let's cut the deficit, and we'll have a much stronger America for doing so.

Thanks for all your time.

Senator QUAYLE. Thank you very much. Thank you for your testimony, I've always been impressed by your specific, detailed recommendations, and I congratulate you for it again today, and also your independent thinking.

[The prepared statement of Mayor Parent follows:]

TESTIMONY BEFORE THE SENATE BUDGET COMMITTEE FIELD HEARING

UNITED STATES SENATOR
DANIEL QUAYLE

BY

ROGER O. PARENT, MAYOR
SOUTH BEND, INDIANA

FEBRUARY 14, 1985
2:00 P.M. to 4:00 P.M.

CITY of SOUTH BEND
ROGER O. PARENT, Mayor

COUNTY-CITY BUILDING SOUTH BEND, INDIANA 46601

FICE OF THE MAYOR

AREA 219 284-9261

February 14, 1985

The Honorable Dan Quayle
United States Senate
524 Hart Senate Office Building
Washington, D. C. 20515

Dear Senator ~~Quayle~~ Dan:

Herewith, I submit written testimony to the Senate Budget Committee through the South Bend Field Hearing. I appreciate your invitation to testify before the Committee and thank you for soliciting our views on the proposed Fiscal Year 1986 budget, the proposed cuts and the budget deficits.

As we prepared the testimony, it was difficult to ascertain with precision the various budget numbers and projections which have been used at different times by different groups and individuals. Please keep that in mind as you read the testimony.

Sincerely,

Roger O. Parent

TABLE OF CONTENTS

I. INTRODUCTION; WE'RE ONE COUNTRY

II. FIFTY ONE BILLION DOLLAR REDUCTION IS NOT ENOUGH

III. FAIRNESS, STRAIGHT TALK AND SACRIFICE

IV. ALTERNATIVE DEFICIT REDUCTION PLAN; COURAGE ON BUDGET CUTS, SACRED COWS AND TAXES

V. EPILOGUE

VI. TABLES

A. Administration's FY 1986 Budget Plan

B. Alternative Deficit Reduction Plan

C. National Defense: Alternative Plan

D. Entitlements and Other Mandatory Programs

E. Discretionary Programs

F. Alternative Plan: Additional Revenues

INTRODUCTION; WE'RE ONE COUNTRY

The Federal Budget deficit debate has intensified and one line of the argument particularly bothers me. That is: Why should one group or one section of our country care about the other? Why should farmers care about mass transit and why should city folks care about farmers? Why should the West care about the East and the South about the North?

Our country grew strong through the idea that different sections and different groups helping each other could build a great nation. Our people did not become strong through the attitude expressed recently by David Stockman: that the farmers' problems are their own. History reminds us that it was good for the Federal government to assist in the building of railroads; that it was good for the East and the Midwest to pay for land reclamation and water projects in the West. By helping one another we all grow in strength and wealth.

Taxes to retrain dislocated workers can make us all more productive; young people supporting older people is a recognition of the legacy that our fathers and grandfathers left to us; older people paying for the education of children is a tribute to their wisdom that they know must be passed on to the younger generations.. To help one another is to recognize the bond which holds our great pluralist nation together.

We face a tough challenge in the huge budget deficits. We can choose a negative and divisive course which will hurt not only the weak and the old, but, in the end, all of us. Or, we can choose a path based on our strengths; one which meets the budget deficit in such a way that we are left stronger. For the strong to invest in the weak is not only generous, but it is wise, for the weak will then become strong and contribute mightily to the national spirit and the national wealth.

II. FIFTY ONE BILLION DOLLARS IS NOT ENOUGH

On September 30, 1985, the Federal Budget deficit for twelve months will be $222 billion dollars. That historic amount is substantially more than all Social Security payments for 1985 and it dwarfs Fiscal Year 86 projections of $23 billion dollars for Medicaid, $69 billion dollars for Medicare and $8 billion dollars for all student aid. The huge deficits are destabilizing to the economy, have triggered runaway interest payments and have caused a weakening of our foreign markets resulting in a loss of jobs and a loss of revenue to the Federal Treasury.

I believe in the traditional value of paying our debts. Common sense dictates that great sacrifices should be made to pay our bills in a timely way. The Federal administration's proposal to cut the projected FY 86 budget deficit by $51 billion dollars, down to $180 billion dollars, is totally inadequate. It guarantees a sea of red ink in our Federal budget far in the future.

I propose that the Federal budget deficit be cut by $100 (plus) billion dollars to $129 billion dollars in FY 86, to $90 billion dollars in FY 87 and to $50 billion dollars in FY 88. The $100 (plus) billion dollar deficit reduction can be accomplished through budget cuts, savings in operations, restricting preferential treatment in the tax code and raising tax revenues a modest $22 billion dollars in FY 86. These proposals are outlined later on in this presentation.

Let's take a deeper look at the destabilizing effect of the high budget deficits.

Recession. In good economic times, there should be no budget deficits and, in recessions, moderate budget deficits should be allowed for costs that are automatically triggered by unemployment and other forces. Mr. Paul Volcker, Chairman of the Federal Reserve, thinks it highly probable that a recession will occur before 1990. He contends without strong action to reduce the projected budget deficits, the shortfalls could balloon to $300 billion dollars annually during a recession.

Interest Payments. The interest payments on the national debt are out of control. In 1979, the interest payments were $32.3 billion dollars. In 1989, they are -

conservatively projected at $159.2 billion dollars assuming President Reagan's budget cuts are accepted. Interest payments on the national debt are gnawing at our fiscal stability and warrant a massive attack against the budget deficits.

Loss of Jobs/Balance of Payments Deficit. Mr. E. G. Jefferson, Chairman of DuPont Corporation, wrote in a letter to the Wall Street Journal, that the biggest trade barrier faced by United States industry is the abnormally high value of the dollar. The high value of the dollar makes our exports expensive and foreign goods inexpensive and this has led to a high balance of payments deficit.

The high value of the dollar is partially a result of fighting inflation through a restrictive monetary policy instead of through lower Federal deficits. A less restrictive monetary policy could be pursued if budget deficits were considerably lower. A weaker dollar, as compared to foreign currencies, would lead to fewer imports, more exports, a stronger economy more jobs, more tax revenues and a lower balance of payment deficit.

III. FAIRNESS, STRAIGHT TALK AND SACRIFICE

The budget deficits are serious and together we can reduce them in a fair manner. But, first let's temper the rhetoric and talk straight with each other.

This region has already paid a high price in the fight against inflation through loss of jobs and industry yet we have funded essential services by cutting popular but less important services and by raising taxes when necessary. Just two weeks ago, the South Bend City Council and I cut one million dollars from our 1985 city budget.

Federal elected officials have a lesson to learn from what cities and the State of Indiana have done to balance our budgets during the past four years. If we were to run a 25% deficit in local and state budgets, as the Federal Government is doing this year, we would be tossed out of office and hung from the lamppost.

Misleading talk at the national level has generated bad feelings among local and state officials. There is no budget surplus in South Bend, and the State of Indiana budget surplus resulted from a tax increase enacted to pay our bills during the recent recession. The surplus is now needed to establish a "rainy day" fund and to pay for delayed public works projects.

Talking about a freeze on the federal budget has led people to believe that all programs are being proposed at 1985 funding levels. The facts are different; many programs are planned at lower than FY 85 levels. All that freeze talk masks a jump of $31.2 billion dollars in defense over FY 85.

The sacrifices involved in reducing the federal deficit must be shared fairly by all groups and areas of our nation. The debate must be conducted with compassion for those who will inevitably suffer from the decisions made. Simple acknowledgement of the pain will make it easier to bear and will make the program cuts easier to accept.

Intertwined in the deficit reduction efforts are the priorities of our nation. A meat axe approach which ignores our national goals will weaken us, but cutting the deficit in a way consistent with our goals will strengthen us. We all join President Reagan and the Congress in working towards a strong national defense; a vibrant economy which provides full economic power for all our people; strong families; independent individuals; a new spirit of enterprise; an attitude of compassion for those who are in need of help; and a well educated and vocationally trained citizenry.

With these thoughts in mind, let's go on to a discussion of the basic elements of the Alternative Deficit Reduction Plan which I am proposing.

IV. ALTERNATIVE DEFICIT REDUCTION PLAN; COURAGE ON BUDGET CUTS, SACRED COWS AND TAXES

The Fiscal Year 1986 budget and the Administration's recommended budget reductions of $51 billion dollars from the 1986 budget create a deficit of $180 billion dollars. The Alternative Deficit Reduction Plan cuts the FY 1986 budget by $62 billion dollars; restricts preferential treatment in the tax code for savings of $18 billion dollars and raises additional revenues of $22 billion dollars by extending at the same level the cigarette tax, increasing the tax on alcoholic beverages and levying a modest energy tax on crude oil. The result would be a $102 billion dollar reduction in the projected deficit for FY 86, down to $129 billion dollars and lower amounts for ensuing years. Below, I outline the rationale behind major segments of the Alternative Deficit Reduction Plan.

A. Courage and Sacrifice on Budget Cuts.

1. Eliminate General Revenue Sharing and the Small Business Administration.

I accept the elimination of the General Revenue Sharing program and the Small Business Administration. GRS is the most popular federal program for local communities since few regulations are attached to it. In South Bend, $1.55 million dollars of GRS are used to fund police and fire pensions. That amount would represent an increase of about 6.4% on the property tax levy and authority to raise the required taxes would have to be given by the State Legislature.

We are willing to make big sacrifices to reduce the federal deficit. Furthermore, it is hard to argue that the Federal Government should worry about paying pensions for local police and fire fighters. Government programs should relate to national priorities in a more direct way.

2. Education Programs Should Be Funded At Current Levels.

There is no better way to help people lift themselves by their bootstraps than to provide education and training for them. It's the best way to get people off welfare and to improve their productivity. The G.I. Bill of Rights is credited with the great era of increasing productivity in this country during the 50s and 60s because of the help it provided to educate many veterans. Education and training is the greatest economic development tool and certainly the underpinning of our national security as well.

3. Support Economic Development Programs

The Community Development Block Grants, the Urban Development Action Grants and the Economic Development Administration should be funded at least at current FY 85 levels. Furthermore, the formula for allocation of CDBG should not be changed. In South Bend, UDAGs and EDA funds have helped strengthen our economic base and CDBG funds are the core of all our economic development efforts.

4. Mass Transit (Local, TRANSPO)

It is doubtful that TRANSPO could continue as a viable transportation system in our community with 60% of its funds deleted. Mass transit should be funded at current FY 85 levels. People use the buses to look for jobs to go to work, to shop, to go to the doctor and for other basic needs. Transportation services are essential to the individual who wants to work towards economic independence.

5. Health Care, AFDC, Food Stamps, Legal Services

All of these programs have been substantially reduced in the past five years. Ten billion dollars of service cuts have been instituted in Medicare and Medicaid alone. Good health and nutrition for children are necessary for people to look for jobs, work hard and study well. These programs should not be cut further.

B. COURAGE TO ELIMINATE SACRED COWS

1. National Defense Budget.

The debate concerning defense expenditures has been misleading. No one, either the President or the Congress has talked about cutting the Defense Department budget. The focus rather has been on how much we should increase defense spending. In FY 86, the administration asked for a $40.2 billion dollar increase over FY 85 budget of $246.3 billion dollars. They then recommended a reduction of $9 billion dollars reducing the request to $31.2 billion dollars over FY 85 for a total of $277.5 billion dollars.

By most professional accounts, the Defense Department is a seriously troubled enterprise. It has deep structural flaws, stemming largely from the fact that the several services are free to pursue their own goals and agenda with separate service staffs and academic institutions. The unending succession of spare parts horror stories and of entire failed systems, such as the Army's Division Air Defense System, currently threatened with cancellation at a loss of some $1.2 billion dollars, are examples of the Defense Department's problems.

Most Americans accept the need for a strong defense. So do we in South Bend and in Indiana. I accept as recommended the funding for the MX Missile and the Strategic Defense Initiative (Star Wars) but do take exception to certain duplicative weapons systems, low priority expenses and waste.

The national security of this country will not necessarily be strengthened by throwing money at the military. There is already a backlog of well over $200 billion dollars in unspent funds and the 1986-88 projections seek authorization of a trillion more dollars. It makes no sense to increase the Deparment of Defense budget by as much as $31.2 billion dollars for FY 86. I recommend the elimination of the Bl Bomber, the same level of production of nuclear warheads, a freeze on expenditures for overall research and a freeze on military construction funds. I also recommend the implementation of the Grace Commission's recommendations concerning weapons systems acquisition and cost estimating.

2. Restriction on Preferential Treatment in Tax Code

A reduction of preferential treatment in the tax code generates revenues that can be used as part of a down payment on the federal deficit. A mix of restrictions, ranging from the elimination of capital gains treatment for timber, to repealing the write-off of intangible drilling costs, and increasing overall compliance could raise almost $18 billion dollars n new revenues. Any negative side effects on the special groups hit hardest by these restrictions would be overshadowed by the benefits of reducing the federal deficit and all that means for this country's economic well-being.

3. Courage on Taxes.

A significant reduction in the federal deficit for 1986 and beyond requires a reasonable mix of spending cuts, decreased levels of preferential treatment and modest measures to raise revenues. More than $22 billion dollars in new revenues could be generated through the continuation, at the same level, of the cigarette excise tax, higher taxes on alcohol and a $4.00 per barrel tax on domestic and imported oil.

The above mentioned new revenues dedicated directly to the federal deficit would help to stabilize our economy for further growth and wealth.

V. EPILOGUE

The Alternative Deficit Reduction Plan, blending spending cuts with elimination of tax preferential treatment of certain groups and revenue raising measures, could receive widespread support throughout the country. Let's get the job done in 1985 for a strong America.

ADMINISTRATION'S FY 1986 BUDGET PLAN (IN BILLIONS OF DOLLARS)

PROPOSED OUTLAY CUTS AND DEFICIT

Proposed FY 1986 Budget	1,025
Administration's recommended changes in FY 1986 Budget	
National Defense	- 9
Entitlements and other Mandatory Programs	- 14
Discretionary Programs	- 21
User Fees and Offsetting Receipts	- 4
Debt Service	- 3
Total Changes	- 51
FY 1986 Budget after proposed cuts	974
FY 1986 Revenues	794
FY 1986 Anticipated Deficit	-180

TABLE A

ALTERNATIVE DEFICIT REDUCTION PLAN (IN BILLIONS OF DOLLARS)

PROPOSED OUTLAY CUTS AND DEFICIT

Proposed FY 1986 Budget	1,025
Alternative recommended changes in FY 1986 Budget:	
Defense (from FY 1986 increase of 40 billion)	- 28.6
Entitlements and Other Mandatory Programs	- 7.4
Discretionary Programs	- 15.0
User Fees and Offsetting Receipts	- 4.0
Debt Service	- 6.0
Total Changes	- 62
FY 1986 Budget After Alternative Plan Cuts	963
FY 1986 Revenues under Administration Plan	764
FY 1986 Additional Revenues Under Alternative Plan	40
FY 1986 Total Revenues Under Alternative Plan	834
FY 1986 Anticipated Deficit Under Alternative Plan	-129

TABLE B

NATIONAL DEFENSE: ALTERNATIVE PLAN (IN BILLIONS OF DOLLARS)

Administration's Proposed Cuts	- 9
Additional Alternative Proposals:	
Eliminate Bl Bomber	- 6.2
Maintain Current Level of Nuclear Warhead Production	- .7
Freeze Research and Development	- 7.8
Freeze Military Construction	- 1.6
Improve Weapon System Acquisition and Cost Estimating	- 3.5
Total	-28.8*

*The total reduction affects the budget authority for National Defense in 1986 and provides for an increase in National Defense of about $12 billion dollars over FY 1985 outlays.

TABLE C

ENTITLEMENTS AND OTHER MANDATORY PROGRAMS

(IN BILLIONS OF DOLLARS)

Acceptable Administration Budget Cuts:

Retirement, Disability and Unemployment Benefits	- 1.4
Farm Price Supports	- 2.0
General Revenue Sharing	- 3.4
Crop Insurance Fund	- 0.1
Pension Benefit Guaranty Corporation	- 0.2
Other	- 0.3
Total	- 7.4

Unacceptable Administration Budget Cuts:

Medicare and Medicaid	- 5.1
A.F.D.C.	- 0.2
Food Stamps	- 0.02
Child Nutrition	- 0.6
Guaranteed Student Loans	- 0.4
Total	- 6.32

TABLE D

DISCRETIONARY PROGRAMS (IN BILLIONS OF DOLLARS)

Acceptable Administration Budget Cuts:	
Dedicated Funding and Business Operations (Power Marketing, Forest Service, FHA Loans, etc.)	- 2.4
Rural Conservation, FMHA, Water Resources, TVA, Appalachian Regional Commission, etc.	- 1.2
Strategic Petroleum Reserves, Public and Indian Housing, Amtrak, Postal Service Energy Supply Research, Civilian Agency Pay Raises, etc.	- 7.5
Discretionary Loans: SBA, Agricultural Credit Rural Electric, Export-Import Bank	- 4.0
Total	-15
Unacceptable Administration Budget Cuts:	
Employment Training, Compensatory Education, Vocational and Adult Education, Student Financial Assistance, National Institute of Health, etc.	- 0.7
Mass Transit	- 0.8
C.D.B.G.	- 0.3
U.D.A.G. & E.D.A.	- 0.5
Legal Services, Work Incentive (WIN), Community Service Block Grants	- 0.9
Veterans Medical Care, Health Block Grants	- 0.6
Rural Housing	- 2.2
Total	- 6.0

TABLE E

ALTERNATIVE PLAN: ADDITIONAL REVENUE

(IN BILLIONS OF DOLLARS)

Restriction of Preferential Treatment in Tax Code:	
Repeal Domestic International Sales Corporations	2.0
Eliminate Capital Gains Treatment of Timber	0.7
Repeal Deductions for Excess Bad Debt Reserves	0.9
Require Full Basic Adjustment for the Investment Tax Credit	1.5
Repeal Percentage Oil and Gas Depletion Allowance	1.1
Repeal Expensing of Intangible Drilling Costs	5.4
Freeze Estate and Gift Tax Credit and Tax Rates at 1984 Levels	0.9
Improve Taxpayer Compliance	5.4
	17.9
Excise and Energy Taxes	
Extend 1982 Cigarette Excise Tax	1.8
Double Excise Taxes on Alcohol	3.8
Impose $4.00 per Barrel Tax on Domestic and Imported Oil	16.6
	22.2

TABLE F

Senator **Quayle**. I've been doing hearings for 4 days now, and you are the first one to say, "OK, fine. Revenue sharing," which seems to be the favorite of all the mayors, "that we're willing to go along with that and be part of the package."

Now, you also are saying that Congress is going to do something in defense, and I think that we've got to make this thing fair and across the board, and I think you really put your finger on that. The budget has got to be balanced. We've got to reduce the deficit.

And I also applaud you for saying, "Well, we ought to go beyond the 50 and try to get to 100." It's going to be tough to get to that 50—I hope that we can get to the 50, but if we would get to 100, which would be a nice challenge—I'm glad that you served it up today. I'm going to remind some of my colleagues, "You know, there's a mayor in South Bend—you haven't heard him, but he said we ought to be doing 100."

If we do 100, Paul Volcker and the financial community out there—there would be a tremendous response, and it would be very positive in the long-term objective.

Let me ask Mayor Perron to go ahead and add to that, then I might ask one or two quick questions and I'll get to the business people after that.

Mayor Perron.

STATEMENT OF HON. JAMES P. PERRON, MAYOR, ELKHART, IN

Mayor **Perron**. Senator Quayle, thank you for this opportunity for the city of Elkhart to share with you what cuts and/or elimination of programs proposed in the fiscal year 1986 budget would have upon the people of Elkhart.

As mayor of the city of Elkhart, I want you to know that we clearly understand the problem of the Federal deficit and the detrimental impact it has had upon our Nation. However, I believe that it should be clearly understood that spending cutbacks should be done fairly. No single sector of our Nation should be made to bear a disproportionate brunt of a Federal deficit reduction effort.

LOCAL GOVERNMENTS SITTING UPON HUGE SURPLUSES IS FALSE

Second, it appears that the Treasury Department has been running a campaign over the last several months indicating that local governments are sitting upon huge surpluses and that as a result, elimination of Federal programs aiding the cities will have little or no impact, and I concur with what Mayor Parent just said.

This impression that the Treasury Department would have you believe is categorically false. It should be pointed out that for years local governments have been bearing a considerable burden of State cutbacks, particularly here in Indiana with the property tax freeze with only moderate increases.

Our tax increases have not kept pace with inflation and many much needed capital improvement programs have been hurt.

I believe that cities, in general—and I can tell you that my city, in particular, has acted responsibly during recessionary times.

FEDERAL CUTBACKS SHOULD BE MADE EVENLY

I would like to refer you to the infamous Atlantic Monthly interview of OMB Director David Stockman of several years ago. The overall gist of what Mr. Stockman was saying was that, indeed, Federal cutbacks, in order to make the Reagan program work, would have to be made evenly, across the board, with no exceptions, or increases in any area of the budget.

Indeed, it was Mr. Stockman himself who indicated that it was ludicrous to propose huge increases in the budget of the Pentagon or even at best, retain spending levels there while attempting to cut programs in other areas of the budget.

With this in mind, and in view of our understanding of the deteriorating effects of the Federal deficit, at best the Federal Government should categorically freeze all Federal spending at current levels, with no funding increases across the board.

At worst, a fair, no exceptions, 10 percent reduction across the board on all programs, including defense, would be a fair approach and would have a drastic impact by freeing up nearly $90 billion yearly.

I would like to share with you how the—and I want to concur to a large degree with what Mayor Parent said about the Federal Revenue Sharing Program. Over the past several years, the city of Elkhart has been channeling more of that money into—away from major capital improvement programs and put that for major capital equipment purchases, and I have categorized that in my written testimony, but I won't go into all the details with that, I'll let you read that.

But I am really more particularly concerned about the proposed cutbacks in the Community Development Block Grant Program and the UDAG Program.

Let me share with you how the spending cutbacks, as proposed, will affect the people of Elkhart in that regard.

CDBG PROGRAM HAS IMPACT ON LOW-INCOME RESIDENTS

The Community Development Block Grant Program, the 10-percent cut in appropriations, along with the redistribution of allocations between the number of entitlement/nonentitlement cities, and the increase in the entitlement communities could mean a potential decline of 23 percent of our Community Development Block Grant entitlement grant.

To put the problem in human terms, the CDBG Program is the only source of direct assistance to low- and moderate-income families available to the city.

Presently, 140 low income, unemployed persons are being assisted through the Community Development Jobs Program. This past 2 years in Elkhart, we have employed a total of 210 unemployed persons in Elkhart. They have been provided with employment and given job skills training.

In addition to employing unemployed persons, the Community Development Jobs Program has painted in excess of 300 homes and provided 450 new sidewalks. All of these benefits went directly to low- and moderate-income persons.

Low-income homeowners are provided with funds to rehabilitate their homes and bring them to minimum standards. To date, 117 families have been assisted through this program. At present funding levels, a person who signs up for this program today would have a minimum of a 2-year wait.

Emergency rehabilitation funding for persons without heat, electricity or plumbing is available with community development funds. This is the only source of emergency assistance of this scope available in Elkhart.

Since this program began in late 1983, 31 families have been assisted with new furnaces, wiring, and plumbing. This program is particularly important in the winter months and becomes more critical as other sources of funding for this assistance have been eliminated.

EFFECT OF CDBG PROGRAM ON LOW-INCOME NEIGHBORHOODS

As you can see, the Community Development Block Grant Program has had a substantial, direct impact on low-income residents of the city of Elkhart. The effects of the CDBG Program in Elkhart's low-income neighborhoods has been equally impressive.

The general character and environment of the neighborhood has been enhanced through the individual programs mentioned above, which have improved in excess of 700 houses, and other programs like the Voluntary Spot Demolition Program which addresses the problem of vacant, abandoned buildings in the neighborhoods. Over 40 eye sores have been removed with this program.

Street repaving in low-income neighborhoods, in excess of that which could have been provided by the city, has been done along with solving emergency problems, such as the break in a force main which dumped raw sewage in residents' front yards. This project could not have been addressed as thoroughly without community development funds.

In the past, every major park which serves lower income residents has been improved with Community Development funds. These improvements have already stopped because of lack of sufficient funds.

ECONOMIC DEVELOPMENT ACTIVITIES PROVIDED WITH CDBG FUNDS

Economic development activities, besides providing job training and direct employment, have been provided with CDBG funds. Fifty-five acres of land have been assembled close to the downtown area in Beneham West. This land was acquired and cleared with CDBG funds. It is presently being prepared for sale for industrial development. This is the only land in Elkhart of this size available for new industrial development, and would not have been available without the Community Development funds.

A public/private partnership between the city, using the Community Development funds, and the local business community enabled Elkhart to attract a major $4 million hotel development in Elkhart's downtown.

Downtown improvements have been made in an effort to revitalize Elkhart's central city. Offstreet parking on Main Street and

Main Street streetscape improvements have been provided with Community Development Block Grant funds.

Elkhart does not receive a great deal of Community Development funds. On the average, our grant has been $850,000 per year, but a reduction of any amount would seriously hinder what we feel has been an impressive record of accomplishment, and would drastically affect the quality of life of hundreds of Elkhart's most needy citizens, as well as having a major adverse effect on Elkhart's overall economy.

URBAN DEVELOPMENT ACTION GRANT PROGRAM

Second, I wanted to address the Urban Development Action Grants; UDAG, as they are commonly known. The elimination of the UDAG Program would have a serious impact on Elkhart's economic recovery.

Presently, the city is working with two developers who are proposing major improvements in Elkhart's downtown. Neither one of these projects will be able to proceed without UDAG funding. These projects would provide over 400 new jobs and produce a private investment in Elkhart of over $15 million.

The city has been fortunate in having been granted a small UDAG grant of $60,000. Funds for the development of this pretreatment facility were not available from any other source, and the business would have been shut down because of the Federal EPA regulations. This project saved 36 jobs at an electro-plating plant, created two new jobs, and spurred private investment of $300,000.

This program has been the most successful in developing an atmosphere of public/private cooperation, not only in Elkhart but nationwide. Without it, Elkhart's economic development activities will be greatly hindered.

The city of Elkhart has received $8.2 million in revenue-sharing funds since 1972. And, as I've indicated, I concur with what Mayor Parent was saying, that we are trying—as I have tried to do in past years—in preparing the 1985 budget, was to remove many of those capital expenditures to free up the Federal revenue-sharing funds that we hope to be receiving for major capital improvement projects.

But I believe that through the continuation of the Community Development Block Grant Program, the UDAG Program, and using the city's additional bonding capabilities, we will still be able to do those things.

We have impressed upon department heads to categorize their capital equipment needs and prioritize those things and put those back into the city's operating budget.

Just to conclude, Senator Quayle, I would urge you, and all Members of Congress, to hear our message that we want to help you in a national effort to reduce the Federal deficit. We only ask that the effort be done in a fair way, fair to each and every American.

Again, I thank you, Senator Quayle, for the time that you have shared with us.

Senator QUAYLE. Thank you, Mayor Perron.

[The prepared statement of Mayor Perron follows:]

TESTIMONY
BY
JAMES P. PERRON, MAYOR
CITY OF ELKHART, INDIANA

BEFORE HEARING HELD BY
SENATOR DAN QUAYLE
IN
SOUTH BEND, INDIANA

FEBRUARY 14, 1985

SENATOR QUAYLE, THANK YOU FOR THIS OPPORTUNITY FOR THE CITY OF ELKHART TO SHARE WITH YOU WHAT CUTS AND/OR ELIMINATION OF PROGRAMS PROPOSED IN THE FISCAL YEAR 1986 BUDGET WOULD HAVE UPON THE PEOPLE OF ELKHART.

AS MAYOR OF THE CITY OF ELKHART I WANT YOU TO NOW THAT WE CLEARLY UNDERSTAND THE PROBLEM OF THE FEDERAL DEFICIT AND THE DETRIMENTAL IMPACT IT HAS HAD UPON OUR NATION. HOWEVER, IT SHOULD BE CLEARLY UNDERSTOOD THAT SPENDING CUTBACKS SHOULD BE DONE FAIRLY. NO SINGLE SECTOR OF OUR NATION SHOULD BE MADE TO BARE A DISPROPORTIONATE BRUNT OF A DEFICIT REDUCTION EFFORT.

SECONDLY, IT APPEARS THAT THE TREASURY DEPARTMENT HAS BEEN RUNNING A CAMPAIGN OVER THE LAST SEVERAL MONTHS INDICATING THAT LOCAL GOVERNMENTS ARE SITTING UPON HUGE SURPLUSES AND THAT AS A RESULT ELIMINATION OF FEDERAL PROGRAMS AIDING THE CITIES WILL HAVE NO OR LITTLE IMPACT. THIS IMPRESSION THAT THE TREASURY DEPARTMENT WOULD HAVE YOU BELIEVE IS CATAGORICALLY FALSE. IT SHOULD BE POINTED OUT THAT FOR YEARS LOCAL GOVERNMENTS HAVE BEEN BARING A CONSIDERABLE BURDEN OF STATE CUTBACKS PARTICULARLY HERE IN INDIANA WITH THE PROPERTY TAX FREEZE WITH ONLY MODERATE INCREASES. OUR TAX INCREASES HAVE NOT KEPT PACE WITH INFLATION AND MANY MUCH NEEDED CAPITAL IMPROVEMENTS PROGRAMS HAVE BEEN DEFERRED. I BELIEVE THAT THE CITIES IN GENERAL AND I CAN TELL YOU THAT MY CITY IN PARTICULAR HAS ACTED RESPONSIBLY DURING RECESSIONARY TIMES.

I WOULD LIKE TO REFER YOU TO THE INFAMOUS ATLANTIC MONTHLY INTERVIEW OF OMB DIRECTOR DAVID STOCKMAN OF SEVERAL YEARS AGO. THE OVERALL GIST OF WHAT MR. STOCKMAN WAS SAYING WAS THAT INDEED, FEDERAL CUTBACKS, IN ORDER TO MAKE THE REAGAN PROGRAM WORK WOULD HAVE TO BE MADE EVENLY, ACROSS THE BOARD, WITH NO EXCEPTIONS, OR INCREASES IN ANY AREA OF THE BUDGET. INDEED, IT WAS MR. STOCKMAN HIMSELF WHO INDICATED THAT IT WAS LUDICROUS TO PROPOSE HUGE INCREASES IN THE BUDGET OF THE PENTEGON OR EVEN AT BEST RETAIN SPENDING LEVELS THERE WHILE ATTEMPTING TO CUT PROGRAMS IN OTHER AREAS OF THE BUDGET. WITH THIS IN MIND, AND IN VIEW OF OUR UNDERSTANDING OF THE DETERIORATING EFFECTS OF THE FEDERAL DEFICIT, AT BEST THE FEDERAL GOVERNMENT SHOULD CATAGORICALLY FREEZE ALL FEDERAL SPENDING AT CURRENT LEVELS WITH NO FUNDING INCREASES ACROSS THE BOARD. AT WORST, A FAIR, NO EXCEPTIONS, 10% REDUCTION ACROSS THE BOARD ON ALL PROGRAMS, INCLUDING DEFENSE, WOULD BE A FAIR APPROACH AND WOULD HAVE A DRASTIC IMPACT BY FREEING UP NEARLY 90 BILLION DOLLARS YEARLY.

LET ME SHARE WITH YOU HOW THE SPENDING CUTS AS PROPOSED WILL EFFECT THE PEOPLE OF ELKHART IN PARTICULAR:

1) COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM - THE 10% CUT IN APPROPRIATIONS ALONG WITH THE REDISTRIBUTION OF ALLOCATIONS BETWEEN THE NUMBER OF ENTITLEMENT/NON ENTITLEMENT CITIES AND THE INCREASE IN ENTITLEMENT COMMUNITIES COULD MEAN A POTENTIAL DECLINE OF 23% IN OUR CDBG ENTITLEMENT GRANT.

TO PUT THE PROBLEM IN HUMAN TERMS THE CDBG PROGRAM IS THE ONLY SOURCE OF DIRECT ASSISTANCE TO LOW AND MODERATE INCOME FAMILIES AVAILABLE TO THE CITY. PRESENTLY, 140 LOW INCOME UNEMPLOYED PERSONS ARE BEING ASSISTED WITH TUITION, TRANSPOR-

TATION AND BABYSITTING, WHICH ALLOWS THEM TO RECEIVE VOCATIONAL TRAINING FOR JOBS.

THROUGH THE COMMUNITY DEVELOPMENT JOBS PROGRAM A TOTAL OF 210 UNEMPLOYED PERSONS IN ELKHART HAVE BEEN PROVIDED WITH EMPLOYMENT AND JOB SKILLS TRAINING. IN ADDITION TO EMPLOYING UNEMPLOYED PERSON, THE COMMUNITY DEVELOPMENT JOBS PROGRAM HAS PAINTED IN EXCESS OF 300 HOMES AND PROVIDED 450 NEW SIDEWALKS; ALL OF THESE BENEFITS WENT DIRECTLY TO LOW AND MODERATE INCOME PERSONS.

LOW INCOME HOMEOWNERS ARE PROVIDED WITH FUNDS TO REHABILITATE THEIR HOMES AND BRING THEM TO MINIMUM STANDARDS. TO DATE 117 FAMILIES HAVE BEEN ASSISTED THROUGH THIS PROGRAM. AT PRESENT FUNDING LEVELS A PERSON WHO SIGNS UP FOR THIS PROGRAM TODAY WOULD HAVE A MINIMUM TWO YEAR WAIT.

EMERGENCY REHABILITATION FUNDING FOR PERSONS WITHOUT HEAT, ELECTRICITY OR PUBMBING IS AVAILABLE WITH COMMUNITY DEVELOPMENT FUNDS. THIS IS THE ONLY SOURCE OF EMERGENCY ASSISTANCE OF THIS SCOPE AVAILABLE IN ELKHART. SINCE THIS PROGRAM BEGAN IN LATE 1983, 31 FAMILIES HAVE BEEN ASSISTED WITH NEW FURNACES, WIRING, TOILETS, ETC. THIS PROGRAM IS PARTICULARLY IMPORTANT IN THE WINTER MONTHS AND BECOMES MORE CRITICAL AS OTHER SOURCES OF FUNDING FOR THIS ASSISTANCE HAVE BEEN ELIMINATE.

AS YOU CAN SEE, THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM HAS HAD A SUBSTANTIAL DIRECT IMPACT ON LOW INCOME RESIDENTS OF THE CITY OF ELKHART. THE EFFECTS OF THE CDBG PROGRAM IN ELKHARTS LOW INCOME NEIGHBORHOODS HAS BEEN EQUALLY IMPRESSIVE. THE GENERAL CHARACTER AND ENVIRONMENT OF THE NEIGHBORHOODS HAS BEEN ENHANCED THROUGH THE INDIVIDUAL PROGRAMS MENTIONED ABOVE, WHICH HAVE IMPROVED IN EXCESS OF 700 HOUSES; AND OTHER PROGRAMS LIKE THE VOLUNTARY SPOT DEMOLITION PROGRAM WHICH ADDRESSES THE PROBLEM OF VACANT, ABANDONED BUILDINGS IN THE NEIGHBORHOODS. OVER 40 "EYE SORES" HAVE BEEN REMOVED WITH THIS PROGRAM.

STREET REPAVING IN LOW INCOME NEIGHBORHOODS IN EXCESS OF THAT WHICH COULD HAVE BEEN PROVIDED BY THE CITY HAS BEEN DONE ALONG WITH SOLVING EMERGENCY PROBLEMS SUCH AS THE BREAK IN THE FORCE MAIN WHICH DUMPED RAW SEWAGE INTO RESIDENT'S FRONT YARDS. THIS PROJECT COULD NOT HAVE BEEN ADDRESSED AS THOROUGHLY WITHOUT COMMUNITY DEVELOPMENT FUNDS.

IN THE PAST, EVERY MAJOR PARK WHICH SERVES LOWER INCOME RESIDENTS HAS BEEN IMPROVED WITH COMMUNITY DEVELOPMENT FUNDS. THIS ACTIVITY HAS ALREADY BEEN STOPPED BECAUSE OF LACK OF SUFFICIENT FUNDS.

ECONOMIC DEVELOPMENT ACTIVITIES, BESIDES PROVIDING JOB TRAINING AND DIRECT EMPLOYMENT HAVE BEEN PROVIDED WITH CDBG FUNDS. FIFTY FIVE ACRES OF LAND HAS BEEN ASSEMBLED

CLOSE TO THE DOWNTOWN IN THE BENHAM WEST AREA. THIS LAND WAS ACQUIRED AND CLEARED WITH CDBG FUNDS; IT IS PRESENTLY BEING PREPARED FOR SALE FOR INDUSTRIAL DEVELOPMENT. THIS IS THE ONLY LAND IN ELKHART OF THIS SIZE AVAILABLE FOR NEW INDUSTRIAL DEVELOPMENT AND WOULD NOT HAVE BEEN AVAILABLE WITHOUT CD FUNDS.

A PUBLIC/PRIVATE PARTNERSHIP BETWEEN THE CITY, USING CDBG FUNDS, AND THE LOCAL BUSINESS COMMUNITY ENABLED ELKHART TO ATTRACT A MAJOR 4 MILLION DOLLAR HOTEL DEVELOPMENT IN ELKHART'S DOWNTOWN.

DOWNTOWN IMPROVEMENTS HAVE BEEN MADE IN AN EFFORT TO REVITALIZE ELKHART'S CENTRAL CITY. OFF STREET PARKING ON MAIN STREET AND MAIN STREET STREETSCAPE IMPROVEMENTS HAVE BEEN PROVIDED WITH COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS.

ELKHART DOES NOT RECEIVE A GREAT DEAL OF CDBG FUNDS. ON THE AVERAGE OUR GRANT HAS BEEN $850,000.00 PER YEAR, BUT A REDUCTION OF ANY AMOUNT WOULD SERIOUSLY HINDER WHAT WE FEEL HAS BEEN AN IMPRESSIVE RECORD OF ACCOMPLISHMENT AND WOULD DRASTICALLY EFFECT THE QUALITY OF LIFE OF HUNDREDS OF ELKHART'S MOST NEEDY CITIZENS, AS WELL AS HAVING A MAJOR ADVERSE EFFECT ON ELKHART'S OVERALL ECONOMY.

2) URBAN DEVELOPMENT ACTION GRANTS - THE ELIMINATION OF THE UDAG PROGRAM WOULD SERIOUSLY IMPACT ELKHART'S ECONOMIC RECOVERY. PRESENTLY, THE CITY IS WORKING WITH TWO DEVELOPERS WHO ARE PROPOSING MAJOR IMPROVEMENTS IN ELKHART'S DOWNTOWN; NEITHER OF THESE PROJECTS WILL BE ABLE TO PROCEED WITHOUR UDAG FUNDING. THESE PROJECTS WOULD PROVIDE OVER 400 NEW JOBS AND PRODUCE PRIVATE INVESTMENT IN ELKHART OF OVER 15 MILLION DOLLARS.

THE CITY HAS BEEN FORTUNATE IN BEING GRANTED ON SMALL UDAG OF $60,000.00. FUNDS FOR THE DEVELOPMENT OF THIS PRETREATMENT FACILITY WERE NOT AVAILABLE FROM ANY OTHER SOURCE AND THE BUSINESS WOULD HAVE BEEN SHUT DOWN BECAUSE OF FEDERAL EPA REGUALTIONS. THIS PROJECT SAVED 36 JOBS AT AN ELECTROPLATING PLANT, CREATED 2 NEW JOBS SPURRED A PRIVATE INVESTMENT OF $300,000.00.

THIS PROGRAM HAS BEEN THE MOST SUCCESSFUL IN DEVELOPING AN ATMOSPHERE OF PUBLIC/PRIVATE COOPERATION NOT ONLY IN ELKHART, BUT NATIONWIDE; WITHOUT IT ELKHART'S ECONOMIC DEVELOPMENT ACTIVITIES WILL BE GREATLY HINDERED.

THE CITY OF ELKHART HAS RECEIVED $8.2 MILLION IN REVENUE SHARING SINCE 1972. SINCE OUR CITY WAS THE FIRST MUNICIPALITY IN THE STATE TO INVEST FUNDS, OUR REVENUE SHARING DOLLARS HAVE EARNED $2.7 MILLION IN INTEREST, MAKING THE TOTAL AMOUNT AVAILABLE OF $10.9 MILLION.

FOUR DIFFERENT ADMINISTRATIONS HAVE HAD THE OPPORTUNITY TO APPROPRIATE THESE FUNDS AND ALL HAVE CHOSEN CAPITAL PROJECTS RATHER THAN SUPPORTING OPERATING BUDGETS OR PAYING SALARIES.

REVENUE SHARING HAS MADE POSSIBLE THE CONSTRUCTION OF OUR CENTRAL FIRE STATION, OAK STREET FIRE STATION, STREET DEPARTMENT COMPLEX, A "T" HANGER AT THE AIRPORT, AND A SEAWALL. IN ADDITION $1.3 MILLION WAS DEDICATED TO DEBT RETIREMENT OF THE BOND ISSUE FOR CONSTRUCTION OF OUR POLICE STATION.

MAJOR EQUIPMENT PURCHASES HAVE INCLUDED:

- COMMUNICATIONS CENTER EQUIPMENT
- POLICE VEHICLES
- SNOW PLOWS
- PARK AND PLAYGROUND EQUIPMENT
- SANITATION TRUCKS
- AMBULANCE
- COMPUTER SYSTEMS

IN ADDITION THE CITY WAS ABLE TO RENOVATE PARK FACILITIES AND REMODEL THE MUNICIPAL BUILDING, INCLUDING HANDICAPPED ACCESSABILITY FEATURES. A WARNING ALARN SYSTEM WAS INSTALLED THROUGHOUT THE CITY; TELEPHONE EQUIPMENT WAS PURCHASED; CITY BUILDINGS WERE MADE ENERGY EFFICIENT.

THE PROPERTY TAX FREEZE IN THE STATE OF INDIANA AND DOUBLE DIGIT INFLATION MADE IT EXTREMELY DIFFICULT TO MEET DAY TO DAY OPERATING EXPENSES. THE CITY OF ELKHART WAS ABLE

TO CONSTRUCT FACILITIES AND KEEP EQUIPMENT UPDATED THROUGH THE AVAILABILITY OF REVENUE SHARING FUNDS.

SINCE THE INCEPTION OF THE FEDERAL REVENUE SHARING PROGRAM THE CITY OF ELKHART HAS ATTEMPTED TO USE THOSE FUNDS WISELY BY NOT MAKING THEM A PART OF THE CITY'S OPERATING BUDGET OR PAYING WAGES AND SALARIES FROM THOSE FUNDS. EVERY ATTEMPT HAS BEEN MADE TO USE THOSE FUNDS FOR CAPITAL IMPROVEMENTS. IT SHOULD BE POINTED OUT, HOWEVER, THAT ALTHOUGH THESE FUNDS HAVE NOT BEEN MADE A PART OF THE CITY'S OPERATING BUDGET, EVERY PROGRAM THAT THE CITY HAS USED THE FUNDS FOR HAS BEEN A MAJOR NECESSITY AND HAD A POSITIVE IMPACT UPON OUR COMMUNITY. BY UTILIZING OUR FEDERAL REVENUE SHARING FUNDS FOR THOSE PROGRAMS, IT HAS FREED UP FUNDS IN THE OPERATING BUDGET TO PROVIDE ADEQUATE SALARY AND WAGE INCREASES FOR OUR CITY'S PUBLIC SERVANTS.

IN CONCLUSION, SENATOR QUAYLE, I URGE YOU AND ALL MEMBERS OF CONGRESS TO HEAR OUR MESSAGE THAT WE WANT TO HELP YOU IN A NATIONAL EFFORT TO REDUCE THE FEDERAL DEFICIT. WE ONLY ASK THAT THE EFFORT BE DONE IN A FAIR WAY - FAIR TO EACH AND EVERY AMERICAN.

AGAIN, I THANK YOU SENATOR QUAYLE FOR THE TIME THAT YOU HAVE SHARED WITH US.

LOOK AT LARGER BLOCK GRANT-TYPE CONCEPT

Senator **Quayle**. I have a couple of questions for the two mayors. There's a difference of opinion among the mayors of Indiana in regard to which program is the most important to them. Some of the smaller towns and even some of the larger communities have received their UDAG grants, and see that they probably will not receive funding for the next 2 years. They say, "Well, let that one go out the window." Others will say, "The only thing I really need to do, is to keep those revenue sharing funds because I really am funding the police and fire."

Both of you, Mayor Parent and Mayor Perron, discussed the importance of the Community Development Block Grants, how you use that plus the UDAG Grants, more so than revenue sharing.

Since there's this mixture of priorities within Indiana—and Indiana is very typical around the Nation—I wonder, from a programmatic point of view, if we might look at a larger block grant-type concept. Perhaps put EDA, Community Development Block Grant, UDAG, and revenue-sharing moneys, back to the cities and States in a proportional way.

Is that a direction that we ought to think about, from a programmatic point of view, or do you think we ought to keep these basic programs intact and then take them one by one and figure out what the budget restraints are going to be? Mayor Parent?

CITIES LIKE TO RECEIVE FUNDS WITH FEW STRINGS ATTACHED

Mayor **Parent**. We always like to get the money with as few strings as possible. On the other hand, if I were in your shoes—in the Federal Government's shoes—and I had certain national priorities that I would want to make sure were followed, then I would pull some strings.

The Community Development Block Grant Program has been good in the sense that it can be utilized for a variety of activities, but it does clearly state that it's got to benefit low and maybe a little bit above low income people, and the economic development of the community.

Revenue sharing funds at first were utilized by the city of South Bend for economic development activity, for major capital improvement projects, but as the years went by and the pressure was on with the freeze or almost a frozen property tax, we found out that it was easy to just take revenue sharing and make them an essential part of the budget, for funding of traditional activities.

And so I think that somewhere in between the desire of some people at the national level, you can have all kinds of strings to that, and close to revenue sharing is all right.

The CDBG has worked well for us, and that's why I would put it near the top of my list. Obviously, education is even higher than that, even though it does not affect city government operations as such; it affects the city very deeply.

Senator **Quayle**. Mayor Perron, do you have anything to add to that?

Mayor **Perron**. I believe that the cities like to receive funds with as few strings attached as possible.

I think by and large—I can really only speak for my own community of Elkhart, I think we have utilized those funds in a good way, that we haven't squandered them, and I think that Elkhart is somewhat more fortunate in that we have not parlayed Federal Revenue Sharing Funds to pay wages and salaries, and we've tried to keep it, as much as possible, away from the operative budget.

However, I would need to point out that the fact that we've had Federal Revenue Sharing Funds has perhaps allowed us to maybe give some better rate increases over the years, over the past several administrations, but generally—and I'm probably going back to about four mayors, both Democrat and Republican, since the revenue sharing funds have been available to Elkhart, that everybody has always been in agreement, both the mayor and the county council, to keep those FRS funds away from salaries. However it's kind of a misnomer—in a way, you do have to consider it as part of your operating budget, because you've been able to make tbe capital equipment purchases.

I think, generally, that it's thought across the country, that the FRS funds are to be used for major capital improvements, such as building police stations, fire stations, upgrading sewers and so forth, and that would be ideal.

That is essentially what we have also tried to do, but over the years we've sinked into making those capital equipment purchases. We're trying to find a way to recategorize those back into the operating budget.

I think that your proposal, what you are suggesting here anyway, certainly warrants a close look and we would probably go along with such a move.

FEDERAL-STATE-LOCAL PARTNERSHIP WILL CONTINUE

Senator **Quayle**. Thank you. I can only say that as we go through this budget brouhaha—and it is going to be a big battle—that we're going to continue the Federal-State-local partnership that we've had. There are a lot of things that we have done in tbe past that have benefitted both the communities, and I can just say that there's not going to be any radical emasculation of programs, or we're not going to pull the plug out tomorrow.

But we are all in this budget crunch and it's—as one of the favorite sayings that's being developed is that there's not a lot of revenues to share out there anymore, there's deficits to be shared, and nobody wants those deficits. They all like to have the revenues.

But I certainly thank you for your contributions, and also for prioritizing for me what's important to South Bend and what's important to Elkhart. It's going to be helpful, and I look forward to the good working relationship that we've had in the past to continue in the future.

Thank you both very much.

Mayor **Parent**. Thank you.

Mayor **Perron**. Thank you, sir.

Senator **Quayle**. Now, we get to some of the business concerns. Could you summarize, giving me the bottom line, in a couple of minutes, so we won't shortchange the other witnesses that we have. Unfortunately I am going to have to leave as close to 3:00 as possible. If not, shortly thereafter.

Mr. Murphy.

STATEMENT OF CHRISTOPHER J. MURPHY III, PRESIDENT, FIRST SOURCE BANK, SOUTH BEND, IN

Mr. **Murphy**. Thank you, Senator Quayle. To cut through and to try to get to the bottom line as quickly as possible, I'll leave the presentation for you to read at your leisure.

Senator **Quayle**. Your presentation will be inserted in the record.[1]

Mr. **Murphy**. I think the bottomline, from my point of view, is that the country is going broke and it's going broke fast. We've had a tendency to kid ourselves about the impact of a trillion dollars worth of debt; we've had an ability to kid ourselves about what this budget means, and when we hear "deficits," we use words that a lot of us don't use in our day-to-day lives. What we're really losing is $200 billion a year, and we need to address that very quickly.

I think—we think that the focus is very difficult. There are obviously four areas of spending that constitute 85 percent of Governmental expenditures. When you look at those areas, it's very difficult to determine where cuts should be made, and it's easy to become very frustrated in doing that.

EMBRACE PRESIDENT'S PROPOSAL AND CONSIDER ADDITIONAL REDUCTIONS

Nonetheless, we think that it is important now to aggressively attack the budget deficit. We would urge you to embrace the President's budget proposal and to consider additional reductions of $25 billion.

This would result in the first real reduction of Government spending from one year to the next in a very long time, and to a 1986 budget deficit of about $160 billion.

It cannot be done by simply reducing defense, or social programs, or any one of the other major areas of Government that people are arguing about. Rather, we do believe that it has to be done with an overall attack on all areas of Government spending, and that all beneficiaries of Government spending must share in the belt-tightening.

Defense is going to have to give its fair share; privatization of some government businesses is going to have to occur. Similarly, we must decrease or hold and check the continuing and increasing costs of Social Security and health and welfare costs in this country, as unpopular as that may be; and people must see that our Social Security System will stay solvent and that indexed increases will not put the entire program in jeopardy now or in the future.

MAINTAIN SAFETY NET FOR ALL AMERICANS

Obviously, we believe that there must be a safety net for all Americans, and that we should continue programs that are designed to keep people working and ensure that all citizens have equal and open access to freedom, life, education, good health and the pursuit of happiness.

---

[1] See p. 520.

However, we must develop programs or focus funding on programs which encourage people to work and become productive, contributing members of our society rather than encouraging them to avoid the work ethic which was so important in building this country.

We think that the Federal Government ought to turn more to the private sector for many of the services now attempted by government so they can be done more economically and efficiently.

NOT ALL GOVERNMENT PROGRAMS ARE ESSENTIAL

You've heard how our local community depends upon government contracts for some of its employment; we are also beneficiaries of government programs, designed to encourage industrial development through tax incentives; we're the recipients of grants, community block funds and a whole host of other governmental assistance, leading to the further development of our community.

While we are all appreciative of these benefits and while we have used them, as you know, as best we can, many of us believe that not all of them are essential to the efficient operation of our Government, nor are they essential to local economic well-being.

Mayors Parent and Perron have told you which are important to them. In spite of the benefits of some of the programs, and while slower development will occur without them, they are not essential. And we believe strongly in our own ability to compete and to our own ability to operate in a relatively free market, unthreatened by either the ravages of inflation or the prospect of depression caused by an overburdened governmental debt situation.

You began the effort to address this deficit with a lot of political courage in an election year when you enacted a $50 billion tax increase and a $13 billion spending reduction last year. We believe that the problems today are greater than they were when you faced them last year, and much more of the budget cutting is necessary than has been undertaken in the past.

AREAS TO CONSIDER FOR SPENDING REDUCTIONS

We would urge you to reduce defense spending through the reduction of specific programs and the introduction of efficiency into the Department of Defense. The duplicity of systems, arsenals, facilities and programs, coupled with the inefficiencies of such a large bureaucracy surely account for over 10 percent of the $286 billion scheduled for defense.

We think it not unreasonable to seek a reduction of $20 billion from the President's proposed budget. We would further urge you to freeze the present Social Security System and to lengthen the years to retirement.

It is interesting to note that the majority of Americans today now pay more in Social Security taxes than they pay in Federal income taxes when the employer contribution is included. Most people do not realize that.

We believe you ought to freeze the Medicare and Medicaid Programs and require greater cost-sharing by Medicare users and remove indexation from many of the Government programs that are driven by it. We believe that $10 to $20 billion is available in that area.

PURSUE CHANGES IN TAX POLICY

Changes in tax policy should be aggressively pursued. While the capital gains provisions are essential to the capital formation and business development, many tax incentives could be completely dropped with little impact on the investment market.

The focus should be on changes which would encourage entrepreneurial investment and risk-taking for economic gain, not for the tax savings alone.

Depreciation schedules should be increased, ITC reduced or excluded, tax-exempt bond issuance further restricted, and the general tax program simplified.

On a net basis, we believe that taxation improvement should be slightly revenue positive by about $10 billion.

We have listened to a lot of people talk about the tax proposal advanced by the Treasury. In all cases where we have heard complaints, people have been focusing on one particular segment of the tax proposal rather than calculating the benefits from a full application of the plan.

It seems to us that the only groups that, frankly, will bear a major cost in the Treasury proposal are the tax shelter syndicators who develop and package programs based primarily on tax incentives rather than on economic attractiveness.

The many tax shelter syndicators who develop strong economic packages and use tax incentives as an additional benefit will continue in business and will continue to develop and market product.

We believe that—corporate America will be much stronger with positive cash flow and a reduction in overall tax rates. The reduction in such taxation will cause companies to make economic decisions based on the real economic return of their investments rather than on the tax benefits which accrue from an investment in particular tax advantaged fixed assets.

TIME FOR OVERALL REVIEW AND REVISION OF TAX SYSTEM

Now, I've been involved personally in lobbying for special purpose tax incentives, and have met with some of your colleagues to negotiate and draft language leading to changes in the Tax Code in prior years. I must say that it is high time for an overall review and revision of our tax system.

As president of a firm which has used and relied on industrial revenue bonds, UDAG grants, and other tax incentives, I can tell you that they are not an essential ingredient to the financial success of our business or our customers' businesses.

The Tax Code today is built on too many special interests, with too many unique benefits directed at small groups.

In summary, we believe that there can be major changes made in the budget and made in the deficit. We cannot encourage you enough, or your colleagues, to aggressively attack the deficit on all levels.

We are building the deficit today, when it would take us, if we were reducing it by $50 billion, well into the next century to do away with our present debt. We think it is very important for the Senate, for the Congress, and for the administration to focus aggressively and very quickly on starting to reduce the deficit and doing away with our debt situation.

Senator QUAYLE. Thank you very much, Mr. Murphy.

[The prepared statement of Mr. Murphy follows:].

SENATOR QUAYLE'S BUDGET COMMITTEE FIELD HEARINGS

Christopher J. Murphy III
President
1st Source Bank
South Bend, IN

February 14, 1985

Senator Quayle and the Members of the Senate Committee:

My name is Chris Murphy. I am President of 1st Source Corporation, a diversified financial services holding company headquartered in South Bend, Indiana. Collectively, our businesses and affiliates employ over 1,000 people and in 1984 paid in excess of $1 million in taxes. We would expect to pay twice that amount in 1985. We are deeply concerned about the state of our economy and the direction of our spending programs. Accordingly, I would like to thank you for the opportunity to speak and commend you and your colleagues for your foresight in conducting these field hearings to determine the thoughts of the people of this country as we look at the major problems facing our economic system.

It is easy to sit in Washington, a relatively recession-proof economy, one that does not depend upon the industrial fabric of this country for its sustenance, one which seems immune to the ebbs and flows of business cycles, and make policy about the long-term economic viability of our financial system without regard to deficits. It is much more difficult to be here in the Midwest where companies have closed and our people put out of work and believe that the huge debt and continuing losses have no impact.

Over the past 200 years this country has faced many economic problems and has overcome those problems with hard work and a single minded dedication to continuing our form of government and our basic economic system. Today, we face one of the greatest challenges and one that has continued to grow unabated for the past 23 years. In fact, it is only twice in the last 23 years that our present problem has been addressed through operating surpluses. We are moving, as a country, inexorably towards bankruptcy. We face a debt burden which is almost twice our gross national product and we are having to finance that debt at a cost of close to $150 billion a year.

Rather than making serious attempts to reduce the debt, we continue to add to it at the debt, we continue to add to it at the rate of $200 billion a year and cannot point to any hope of reducing it or the cost of carrying it without a dramatic change in our direction. As the debt steadily rises, more and more of our nation savings are being drained away from economically stimulating areas such as housing and capital goods. It is time for Washington to practice the same fiscal responsibilities required of its citizens, it is time to be honest with our countrymen. We are going broke at a fast pace.

Today, politicians, bureaucrats, government officials, all well meaning people, are arguing about our present budget and about the various tools available to increase our economic output and reduce the budget deficit. While the argument progresses, we get deeper in debt and further away from solving the problem. The President has proposed a fiscal 1986 budget of $974 billion which will increase our present debt by over $200 billion in 1985. Fortunately, his economic programs of the past four years have kept us from earlier disaster. Now, there are proposals to reduce the rate of increase in spending in certain sectors of the budget while there are arguments that economic prosperity will, in fact, cause further revenue increases leading to deficit reduction in the not-too-distant future.

85% of all spending is devoted to four areas. Upon analysis, it is evident that little can be done in the short term to reduce the expenditures in these areas and we can't grow our way out of the problem on the revenue side. This leads to the frustrating conclusion that it may be useless to proceed to control our spending or increase taxes to reduce the deficits. While this frustration is real, it must not keep us from a serious attack on the deficit problem. We must begin now, dealing with both sides of the loss equation if we are ever going to fix the problem. Accordingly, I am here to urge you to accept the President's budget proposal and to consider an additional reduction of $25 billion. This would result in the first real reduction of Government spending from one year to the next in a very long time and to a 1986 budget deficit of about $160 billion.

This cannot be done by simply reducing defense, or social programs or any one of the other major areas of government expenditure. Rather, it must be done by an all-out attack on all areas of government spending. All beneficiaries of government spending must share in the belt tightening. Defense will have to give its fair share. Privatization of some government businesses will have to occur. Similarly, we must decrease or hold in check the continuing and increasing cost of social security and health and welfare costs in this country and people must see that our Social Security System will stay solvent and that indexed increases will not put the entire program in jeopardy. This is not to say that we should not guarantee a safety net for all Americans, nor is it to say that we should not continue programs designed to improve the lot of our fellow Americans and ensure that every citizen has equal and open access to life, freedom, education, good health, and the pursuit of happiness. It is to say, however, that we must develop programs which encourage people to work and become productive, contributing members of our society rather than encouraging them to avoid the work ethic that was so important in building this country. And, it is to say that we should turn to the private sector to provide many of the services now attempted by government so it can be done more economically and efficiently.

Our local community depends upon government contracts for some of its employment. We are also the beneficiaries of government programs designed to encourage industrial development through tax incentives. We are the recipient of grants, community block funds, and a whole host of other governmental assistance leading to the further development of our community. While we are all appreciative of these benefits and while we have used them as best we can, many of us believe that not all of them are essential to the efficient operation of our government nor are they essential to our local economic well being. We believe strongly in our own ability to compete and to our own ability to operate in a relatively free market unthreatened by either the ravages of inflation or the prospect of deep depression caused by an over-burdened governmental debt situation. We believe that the costs of borrowing and therefore the cost of funding our businesses can be greatly reduced if, in fact, the federal government deficit is attacked. You began to do this last year, when with great political courage in an election year you enacted a $50 billion tax increase and a $13 billion spending reduction. Much more of the latter is necessary.

Accordingly, we would urge you to reduce defense spending through the reduction of specific programs and the introduction of efficiency into the Department of Defense. The duplicity of systems, arsenals, facilities, and programs coupled with the inefficiencies of such a large bureaucracy surely account for over 10% of the $286 billion scheduled for defense. We think it not unreasonable to seek a reduction of $20 billion from the President's proposed budget. We would further urge you to freeze the present social security system and to lengthen the years until retirement (it is interesting to note that the majority of Americans now pay more in social security taxes than in Federal Income Taxes when the employer contribution is included), to freeze the Medicare/Medicade program, and require greater cost sharing by Medicare users and remove indexation from the many government programs that are driven by it. $10 to $20 billion could be raised from these areas alone. Changes in tax policy should be aggressively pursued. While the capital gains provisions are essential to capital formation and business development, many tax incentives could be completely dropped with little impact on the investment market. The focus should be on changes which would encourage entrepreneurial investment and risk-taking for economic gain, not for tax savings alone. Depreciation schedules can be increased, ITC reduced or excluded, tax exempt bond issuance further restricted, and the general tax program simplified. On a net basis, we believe that taxation improvement should be slightly revenue positive by about $10 billion.

We have listened to many people complain about the tax proposal advanced by the Treasury. In all cases where we have heard complaints, people are focusing on one particular segment of the tax proposal rather than calculating the benefits to them from full application of the plan. It seems to us that the only groups that would bear a major cost in the Treasury proposal are the tax shelter syndicators who develop and package programs based primarily on tax incentives rather than on economic attractiveness. The many tax shelter syndicators who develop strong economic packages and use tax incentives as an additional benefit will continue in business and will continue to develop and market product.

Corporate America will be much stronger with positive cash flow and a reduction in overall tax rates. The reduction in such taxation will cause companies to make economic decisions based on the real economic return of their investments rather than on the tax benefits which accrue from an investment in particular tax advantaged fixed assets.

Having been personally involved in lobbying for special purpose tax incentives and having met with some of your colleagues to negotiate and draft language leading to changes in the tax code in prior years, I must say that it is high time for an overall review and revision of our tax system. As President of a firm which has used and relied on Industrial Revenue Bonds, UDAG Grants, and other tax incentives, I can tell you they are not an essential ingredient to the financial success of our business or our customers' businesses. The tax code today is built upon too many special interests with too many unique benefits directed at small groups. We must once again equalize our tax system so as to provide equal benefit throughout our economy to all our citizens, both individuals and corporate.

Lastly, I would ask you to encourage your colleagues to mandate the executive branch of government to undertake a rapid review and implementation of the Grace Commission recommendations. Waste in government continues at an all time high. Having been employed in a number of government departments and agencies, I have witnessed first-hand the waste. This is not to say that the majority of people in government and in politics are not properly motivated nor committed. In fact, some of the greatest commitment I have witnessed among working America has occurred in Washington. The people I have known there and grew up with believed very strongly in what they were doing and made great personal sacrifices to serve their country. Unfortunately, for many their purposes were lofty and well meaning while their practices where often short on results.

It is time for Washington to take a lesson from the rust bowl. We are honest with ourselves here. We know that when we spend more than we make, we are losing money and while we can borrow in the short term to make up the gap -- too much borrowing will inevitably lead to bankruptcy. Today, our government is losing money at a rate of $200 billion a year. It has already borrowed almost $2 trillion and is paying close to $150 billion a year in interest. We don't have enough money to pay down our debt. At $50 billion a year, we couldn't pay off our present debt until the next century, and instead of starting to reduce it, we are still adding to it.

In the last five years we have suffered in the Midwest. Many of our neighbors have been without jobs while many others have had to accept substantial reductions in income to save our businesses. We made the hard choices and made the sacrifices so we could survive. We think it is time Washington did the same. The Congress and the President must avoid the temptation to bribe voters by spending money we don't have. Sooner or later we will have to pay. We think it is time to face the deficit problem and begin a serious attempt to reduce it.

I want to thank you for the opportunity to address you in a general manner. We are presently reviewing the President's proposed budget in greater detail. Should you wish, we would be pleased to submit additional written testimony with specific quantifiable recommendations and an analysis of the budget's impact on us and our customers.

Senator Quayle. Mr. Hyde.

STATEMENT OF LAWRENCE H. HYDE, PRESIDENT, AM GENERAL DIVISION, LTV AEROSPACE AND DEFENSE CO., LIVONIA, MI

Mr. Hyde. Good afternoon, Senator Quayle. As some of you know, I am Larry Hyde, the president of the AM General Corp. whose factories are all in Indiana, mainly concentrated in the South Bend/Mishawaka area, and we are a subsidiary of the LTV Corp. of Texas who is also prominently represented in Indiana by its steel works at Indiana Harbor.

Now, we could make a long talk on the steel industry, but since Mr. Post is here to represent those interests, I will confine my remarks to the defense part of the national budget and the implications of any changes in it for the Nation as a whole and for the local community in particular.

LOOK AT DEFENSE BUDGET OVER TIME

There are three basic points in these comments: One, we must look at the defense budget over time. Thirty years ago this year, the defense budget was 50 percent of the national budget. It trickled down to a low point of some 23 percent in 1980, and under the current administration's revitalization of our defenses, it's gone back up, but rather slowly, to 28 percent of the total proposed national budget for this year. And that must be kept in perspective, particularly in face of some of those who think it is the sole cause of our budgetary deficit.

Also, during that time, the Nation has grown significantly in its gross national product to the point that whereas 30 years ago the defense budget was 10 percent of our gross national product, it is now down to 6 percent. So while it cannot be sacrosanct, it must be examined.

Frankly, Senator, you and some of your more farsighted colleagues on your Senate committee are doing a good probing job of examining it—it is not, as some would have us believe, the sole solution to this deficit problem.

WE ARE ALL COMMITTED TO A STRONG DEFENSE

Second, since we are all committed, the mayors commented on it, and I think all responsible people in the community would agree, we are all committed to a strong defense posture for the United States and we must note carefully where we are right now in building up our defenses.

There was a bad slide in providing for the defense in the United States during the 1970's. I sat through a long luncheon discourse by Mr. Brzezinski, the National Security Adviser to the previous administration, who confessed that, and deplored that the Soviets had outgunned us and outequipped us during the late seventies, and he said, "We must keep that clearly in mind when we go to the negotiating table with them now."

But coming back to what is happening to a good part of this defense budget, we are now finally putting into the field those products which have been under development, under engineering, under testing for the last 4, 5, 6, or 7 years; only now they are actually getting out there with our armed forces where they mean something.

That is obviously true in many of the advanced airplanes now being produced. It is only in the last couple of years that the M-1 tank and some of the most effective naval ships that we've had for decades, so that any adjustment of the defense budget should not concentrate or should not go to the expedient of cutting off deliveries or extending deliveries of those vital products. After which many years of development, they are finally being produced in fairly economic quantities and at good, competitive prices, but should examine new starts of something which is only going to be effective in years to come.

You and your colleagues, I know from firsthand experience, are always examining that. That is the proper challenge, rather than the expedient that's been used in the past of just drawing out deliveries of current items that are finally in the production and delivery to the force's stake.

DEFENSE EXPENDITURES ARE DIRECT ECONOMIC BENEFIT

My third observation would be to make certain that everyone is aware that there is a direct economic benefit to the United States and to this community, in particular, of a good part of these defense expenditures.

The money does not just go into a black hole, it goes into the pockets of those workers who are producing these products.

As the mayors know here, we are particularly proud of the fact that the Army vehicle, which we just put into production at the first of last month, the "Hummer," has allowed us to reopen a plant in Mishawaka which we had owned for dozens of years and which was closed—actually padlocked—for the past 6 or 7 years. We now have 600 people at work there. We will add another couple hundred as production steps up during the balance of the spring.

Those people are supported by several hundred additional workers at our South Bend factory, 1,000 employees of our own attributable to this new contract, and obviously, with the 2-to-1 multiplier effect it has on service and support industries in the community, we can see some 3,000 to 4,000 new jobs in this community directly attributable to a well-managed, well thought-out, competitively priced defense contract.

We are particularly proud of the job that we have done doring the development period, and very appreciative of the support you have given us during this period against some of your less responsible colleagues who would like to peck at—who like to peck at small peccadillos rather than looking at the extraordinary performance of the vehicle as a whole.

We are about to announce to the national public, in good newspaper ads, what is already known to the Army; namely, that we beat their reliability requirements by a factor of 50 to 100 percent in some of the most excruciating tests that any vehicle has been subjected to before it went into service.

So, in summary, we have to understand that good parts of this defense budget contribute to our national defense, are very well managed by the Army to make sure they get value for the money and have a wonderful economic impact on a community that needs it, like the South Bend-Mishawaka area. So don't keep hands off, but make sure that you and your colleagues are quite selective in any probing or pruning that has to be done in this 28 percent of the national budget.

Senator **Quayle**. Thank you. I think I know exactly what programs you are talking about.

[The prepared statement of Mr. Hyde follows:]

SENATE BUDGET COMMITTEE
FIELD HEARINGS ON DEFICIT & TAXES

South Bend, Indiana

February 14, 1985

Statement by

Mr. Lawrence H. Hyde
President, AM General Division
LTV Aerospace and Defense Company
P.O. Box 3330
Livonia, Michigan 48151-3330

SENATE BUDGET COMMITTEE
FIELD HEARINGS ON DEFICIT & TAXES
South Bend, Ind.
February 14, 1985

Mr. Chairman, my name is Larry Hyde, and I am the President of the AM General Division of LTV Aerospace and Defense Company, a wholly-owned subsidiary of the LTV Corporation. We at AM General Division of the LTV Corporation welcome this opportunity to testify today.

Before I begin, I would like to provide some information about the presence of the LTV Corporation in Indiana. Two LTV subsidiaries - LTV Steel and AM General Division - employ nearly 10,000 persons at several locations in the state. Our steel-related payroll is about $245 million annually, and we pay over $10 million in state taxes.

As the nation's second largest steel company, LTV Steel operates one of the world's most modern and efficient steel making and finishing facilities at Indiana Harbor. Our continuous caster, which began operation in October of 1983, is the most advanced in the Western Hemisphere and has a production rating of 260,000 tons per month.

Our AM General Division, which has assembly plants in South Bend and Mishawaka, and a stamping plant in Indianapolis, is the free world's largest supplier of quality military vehicles, and has a product line ranging from 1/4-ton to 14-ton trucks.

AM General employs almost 2,700 people in these three Indiana plants. On January 2nd we began production on the Army's new High Moblity, Multipurpose, Wheeled Vehicle, which we have nicknamed the HUMMER, and which answers the Armed Forces need for superior mobility in a tactical field environment. Together, with the Army's Tank and Automotive Command, we have designed, built, and thoroughly tested a vehicle that will profoundly affect the Army's ability to quickly move and fight in the most rugged combat environments. We are proud of the HUMMER, and believe that the men and women in our armed forces are going to be proud of it too.

AM General has also manufactured the majority of the postal service vehicles delivering mail today--even those in Canada. Since 1970 we have supplied the U.S. Postal Service with over 190,000 vehicles, and we are even today competing for a contract to produce the Postal Service's new Long Life Vehicle.

As a major American manufacturing corporation, we are greatly interested in and significantly affected by the fiscal policy of our country. Budget deficits matter to us since we are a company which has to compete in the market place with the government for dollars and is impacted by an overvalued dollar which, in turn, makes imports cheap. Simply, the viability of our businesses are directly and materially affected by governmental policies, but particularly by the deficit.

As you know, Senator Quayle, LTV is the nation's second largest steel company as a result of the successful completion of our merger with Republic Steel. It is not excessive to state that the merger would not have been allowed without your personal efforts and tireless work in its behalf. I want to take this opportunity to express the gratitude of our management and employees for all you did to help.

We sought that merger because we knew it provided an opportunity for us to become a more efficient producer of higher grade steel and, accordingly, to be able to compete better in the world steel market.

When the company initiated the merger, steel imports were running at about 20%. During the period between initiation and completion of the merger, they surged to the 26% level and reached 70% in certain categories. As a result of the negotiations recently undertaken by the President, we are hopeful they will return to the 20% level for the next three years. They had better, because if they don't, all of us have a problem.

During that period--last year to be precise--the LTV Corporation experienced a net loss of $378 million with $152 million arising from our steel operations. Our Chairman, Ray Hay, has stated that a large share of this loss is attribted to steel imports.

One of the main reasons for these import levels is the value of the dollar which, in effect, subsidizes imports at the expense of domestically produced goods. It is our view that the high value of the dollar is directly tied to the excessive budget deficit. Unless we reduce that deficit significantly and quickly, our products will condinue to be disadvantaged in the marketplace vis-a-vis foreign goods and our ability to compete will be thwarted. Thus, we come full circle to your concerns and those of your constituents. The deficit is the root cause of the high dollar value which, in turn, makes imports cheap and could result in loss of jobs, taxes and payroll for Indiana.

Needless to day, we urge you to continue your leadership in deficit reduction. We recognize the difficulties you and your colleagues face in this task, but we believe meaningful deficit reduction is absolutely essential to the survival of the American economy, the steel industry, and the State of Indiana.

We agree that every effort must be made to reduce this deficit by spending cuts. However, we are realistic enough to know that other measures--involving revenues--may be necessary. It is our view that taxing the American people and American industry at this time would be a serious mistake. However, there is another, yet untapped, source of revenue which we urge you to consider. That source is the imports entering this country.

Presently, the income from products made overseas and imported to the U.S. is taxed neither in the country of manufacture nor the U. S.. As a practical matter, imported products have a huge cost advantage over domestically produced goods as a result of the differences between the tax systems of our trading competitors and our own. We estimate that taxes and other economic subsidies provide foreign produced goods with a 20% to 40% cost advantage over similar American goods.

Frankly, we think this is outrageous and must be changed. One way to do that is to levy an import surcharge on all imported goods, another is to enact a consumption tax--such as a business transfer tax which would be imposed on all goods, regardless of origin, but allow rebates on American produced goods. Whichever way, this would accomplish three critical objectives:

. First, it would help cut the budget deficit.

. Second, it would help cut the trade deficit.

. Third, by raising the price of imports, it would make it easier for American produced goods to compete domestically.

This idea is not an original one. It is a policy followed by virtually all our trading competitors. As a result, they have no basis for complaint.

We think it is vital that the Congress move to "level the international playing field," and we urge you to consider our suggestions as a way to accomplish that goal.

Thank you Mr. Chairman, for this opportunity to testify.

Senator QUAYLE. Mr. David Post, please.

STATEMENT OF DAVID P. POST, SENIOR MANAGER, BURNS HARBOR PLANT, BETHLEHEM STEEL CORP.

Mr. POST. Thank you, Senator, for the opportunity to appear here today. My name is Dave Post. I'm the senior manager of Burns Harbor plant for Bethelehem Steel Corp.

Prior to my comments on the deficit, I wouldn't want the opportunity to pass without first thanking you—personally thanking you for your support in helping the steel industry in its efforts to curb the flow of unfair and illegal imports last year. Your support was desperately needed, and we feel helped us in that battle, and we believe that if the President is able to carry out his promise to it, it will go a long way in helping out the steel industry in the State of Indiana, so we thank you for that.

I know that you are well aware that Indiana is this Nation's leading producing State in steel, with over 20 percent of the steel made right in northern Indiana.

Our plant at Burns Harbor currently is employing about 6,700 people. It's the single largest employer in both Porter and LaPort Counties. Our payroll last year exceeded over $200 million, and during the year we paid more than $11 million in State and local taxes. Our purchases of goods and services from the area—in Indiana alone was over $160 million.

Just to replace those facilities over at Burns Harbor, based on today's dollars, would cost over $4.5 billion—I cite these figures not only as evidence of the impact on the local and State economy, but also as evidence of our dependence on a healthy national economy, an economy that will be impacted to no little extent by a Federal Budget.

COLLECTIVE POLITICAL WILL NEEDED TO REDUCE SPENDING

With respect to reducing the budget, we really have no new or revolutionary concepts to offer. The problem has been thoroughly discussed and the solutions, we feel, depend on the collective political will of the Congress and the President to take some unpopular actions, and we know these solutions are not easy to accept.

But the mere size of the deficit dictates that universal across-the-board sacrifice is the only viable approach, and that significant spending cuts must take priority before any tax reform is attempted.

The bottomline is that all is—we feel that all that is needed is the political will to take the necessary action. We support such proposals as a 1-year across-the-board budget freeze, or a reduction in the full COLA to a CPI of minus 2 or 3 percent.

We support revisions in Medicare to reflect payments that would be more in line with the need. Any of these or all would make a significant contribution toward the deficit reduction.

We know that business will be and should be affected just as all Americans will be affected by the changes that will be required to reduce this deficit. The only group that we hope and expect will be held harmless from the adverse effects of deficit reduction are the very poor who are the beneficiaries of the means-tested entitlement programs. We do not believe these programs should be reduced further.

The bottomline: It doesn't appear to us, however, that this country has the collective political will to reduce spending to the level of a balanced budget or to make the receipts equal to spending. Further, it does not appear in the realm of the real world that we can grow our way out of this deficit.

So the bottomline, therefore, is the only practical alternative is to increase revenues. These increases could come in the form of users' fees, but more realistically, the majority would have to come in the form of increased taxes. Now, I don't come as an expert in this field and would defer to others to determine in what form and how much.

FINANCIAL CONDITION OF STEEL INDUSTRY IS PERILOUS

However, the financial condition of the domestic industry in this country is perilous. Losses in excess of $6 billion over the last 3 years have destroyed the historical capital structure of this industry and have made it virtually impossible to raise capital in the traditional markets. To the limited extent that creative financing or nonstandard capital sources are still available, the cost is extreme.

The single most critical factor for the survival of the steel industry in this country is for it to attain a consistent reasonable level of profitability which can be sustained through cyclical periods.

The President's commitment to an open and fair international trading system and the on-going steel trade negotiations should be significant in providing a period during which the industry has an opportunity to recover and modernize.

The industry has made a commitment to modernize and, indeed, under the provisions of the Steel Import Stabilization Act, the major companies are required for 5 years to commit net cash flow from steel product operations for purposes of reinvestment in and moderization of the industry.

Now, there is a growing perception that the steel trade arrangements designed to limit imports to a little over 20 percent of the U.S. steel consumption in this country will create economic conditions which will permit the steel industry to survive.

TAX POLICY CHANGES NEEDED TO CREATE CAPITAL

The trade program is, indeed, crucial to any chance for success the steel industry may have in its drive to modernize. But the bottom line is, without changes in tax policy, American steel industry cash flow will be insufficient to achieve an adequate level of modernization, despite the benefits which may accrue from the trade program.

We have submitted for the record, Senator, a paper which deals with some of the fundamental tax policy options we believe would be extremely beneficial in providing a source of cash which the industry desperately needs to modernize; and I would just suggest that it's a rather comprehensive document.[1]

---

[1] See p. 552.

I know you are familiar with a lot of the facts that are discussed in the first portion of this because I know you met recently with our chairman, Mr. Troutline, but I would urge you and your staff to begin at page 6 where we discuss in great detail the tax policy necessary that we believe to create some of this capital.

Thank you for the opportunity to be here, sir.

Senator QUAYLE. Thank you very much.

[The prepared statement of Mr. Post follows:]

HPBL.AFF.PA299

ORAL STATEMENT OF DAVID P. POST
SENIOR MANAGER - BURNS HARBOR PLANT
TO THE SENATE BUDGET COMMITTEE
FIELD HEARINGS - FEBRUARY 14, 1985

MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. MY NAME IS DAVE POST, SENIOR MANAGER OF BURNS HARBOR PLANT, BETHLEHEM STEEL CORPORATION.

PRIOR TO MY COMMENTS ON THE DEFICIT, I WOULD FIRST LIKE TO TAKE THIS OPPORTUNITY TO THANK YOU FOR YOUR SUPPORT IN HELPING THE STEEL INDUSTRY IN ITS EFFORTS TO CURB THE FLOW OF UNFAIR AND ILLEGAL STEEL IMPORTS. WE BELIEVE THAT IF THE PRESIDENT IS ABLE TO CARRY OUT HIS PROMISES, IT WILL GO A LONG WAY TO HELPING STEEL IN INDIANA.

AS YOU KNOW, INDIANA IS THE NATION'S LEADING STEEL-PRODUCING STATE, WITH BETTER THAN ONE OF EVERY FIVE TONS OF STEEL MADE IN THE UNITED STATES BEING POURED IN LAKE AND PORTER COUNTIES.

Bethlehem Steel's Burns Harbor plant, located in Northern Porter County, is America's most modern integrated steel plant. To say the least, the plant's impact on the local economy is significant. Employment currently stands at about 6,700, and Bethlehem is the largest single employer in both Porter and LaPorte Counties. The plant's payroll in 1984 **exceeded $200 million** and during the year the plant **paid more than $11 million** in state and local taxes. Purchases of goods and services from firms within Indiana **exceeded $160 million** during the past year.

To replace the facilities now in operation at Burns Harbor would require an investment of more than $4.5 billion, in 1984 dollars. Although Burns Harbor already is recognized as the most technologically advanced steel plant in the U.S., huge sums of capital continue to be spent to keep the plant productive and competitive. For instance, within the past 16 months, two sheet steel treating lines were installed at Burns Harbor, at a cost of about **$100 million.** Construction presently is underway on the

PLANT'S SECOND CONTINUOUS CASTER, A PROJECT THAT WILL COST IN THE NEIGHBORHOOD OF $250 MILLION.

I CITE THESE FIGURES NOT ONLY AS EVIDENCE OF MY PLANT'S IMPACT ON THE LOCAL AND STATE ECONOMY, BUT ALSO AS EVIDENCE OF OUR DEPENDENCE ON A HEALTHY NATIONAL ECONOMY, AN ECONOMY THAT WILL BE IMPACTED TO NO LITTLE EXTENT BY THE FEDERAL BUDGET.

WITH RESPECT TO REDUCING THE BUDGET DEFICIT, WE HAVE NO REVOLUTIONARY CONCEPTS TO OFFER. THE PROBLEM HAS BEEN THOROUGHLY DISCUSSED AND THE SOLUTIONS DEPEND ON THE COLLECTIVE POLITICAL WILL OF THE CONGRESS AND THE PRESIDENT TO TAKE UNPOPULAR ACTIONS. THE SOLUTIONS ARE NOT EASY TO ACCEPT. THE MERE SIZE OF THE DEFICIT DICTATES THAT UNIVERSAL SACRIFICE IS THE ONLY VIABLE APPROACH AND THAT SIGNIFICANT SPENDING CUTS MUST TAKE PRIORITY AND BE ENACTED BEFORE TAX REFORM IS ATTEMPTED. ALL THAT IS NEEDED IS THE POLITICAL WILL TO TAKE THE NECESSARY ACTION. PROPOSALS SUCH AS A ONE-YEAR BUDGET FREEZE, A REDUCTION IN THE

FULL COLA TO CPI MINUS 2 OR 3%, REVISIONS IN MEDICARE TO REFLECT PAYMENTS MORE ALIGNED WITH NEED --- ANY OF THESE WOULD MAKE A SIGNIFICANT CONTRIBUTION TOWARD THE DEFICIT REDUCTION. BUSINESS WILL BE AFFECTED, JUST AS ALL AMERICANS WILL BE AFFECTED BY THE CHANGES THAT WILL BE REQUIRED TO REDUCE THE DEFICIT. THE ONLY GROUP WE HOPE AND EXPECT WILL BE HELD HARMLESS FROM THE ADVERSE EFFECTS OF DEFICIT REDUCTION ARE THE VERY POOR WHO ARE THE BENEFICIARIES OF MEANS-TESTED ENTITLEMENT PROGRAMS. WE DO NOT BELIEVE THESE PROGRAMS SHOULD BE REDUCED FURTHER.

IT DOES NOT APPEAR TO US, HOWEVER, THAT THIS COUNTRY HAS THE COLLECTIVE POLITICAL WILL TO REDUCE SPENDING TO THE LEVEL OF RECEIPTS. FURTHER, IT DOES NOT APPEAR IN THE REALM OF THE REAL WORLD THAT WE CAN GROW OUR WAY OUT OF THIS DEFICIT.

THEREFORE, THE ONLY PRACTICAL ALTERNATIVE IS TO INCREASE REVENUES. THIS INCREASE COULD COME IN THE FORM OF USER FEES, BUT MORE REALISTICALLY, THE MAJORITY WOULD HAVE TO COME IN THE FORM

OF INCREASED TAXES. I AM NOT AN EXPERT IN THIS FIELD AND WOULD DEFER TO OTHERS TO DETERMINE IN WHAT FORM AND HOW MUCH.

HOWEVER, THE FINANCIAL CONDITION OF THE DOMESTIC STEEL INDUSTRY IS PERILOUS. LOSSES IN EXCESS OF $6 BILLION OVER THE LAST THREE YEARS HAVE DESTROYED THE HISTORICAL CAPITAL STRUCTURE OF THE INDUSTRY AND HAVE MADE IT VIRTUALLY IMPOSSIBLE TO RAISE CAPITAL IN THE TRADITIONAL MARKETS. TO THE LIMITED EXTENT THAT CREATIVE FINANCING OR NONSTANDARD CAPITAL SOURCES ARE STILL AVAILABLE, THE COST IS EXTREME.

THE SINGLE MOST CRITICAL FACTOR FOR THE SURVIVAL OF THE STEEL INDUSTRY IS FOR IT TO ATTAIN A CONSISTENT REASONABLE LEVEL OF PROFITABILITY WHICH CAN BE SUSTAINED THROUGH CYCLICAL PERIODS. THE PRESIDENT'S COMMITMENT TO AN OPEN AND FAIR INTERNATIONAL TRADING SYSTEM AND THE ONGOING STEEL TRADE NEGOTIATIONS SHOULD BE OF SIGNIFICANT IMPORTANCE IN PROVIDING A PERIOD DURING WHICH THE

INDUSTRY HAS AN OPPORTUNITY TO RECOVER AND MODERNIZE. THE INDUSTRY HAS MADE A COMMITMENT TO MODERNIZE, AND INDEED, UNDER THE PROVISIONS OF THE STEEL IMPORT STABILIZATION ACT, THE MAJOR COMPANIES ARE REQUIRED FOR FIVE YEARS TO COMMIT THE NET CASH FLOW FROM STEEL PRODUCT OPERATIONS FOR PURPOSES OF REINVESTMENT IN AND MODERNIZATION OF THE INDUSTRY.

THERE IS A GROWING PERCEPTION THAT THE STEEL TRADE ARRANGEMENTS DESIGNED TO LIMIT IMPORTS TO A LITTLE OVER 20% OF U.S. STEEL CONSUMPTION WILL CREATE ECONOMIC CONDITIONS WHICH WILL PERMIT THE STEEL INDUSTRY TO SURVIVE. THE TRADE PROGRAM IS INDEED CRUCIAL TO ANY CHANCE FOR SUCCESS THE STEEL INDUSTRY MAY HAVE IN ITS DRIVE TO MODERNIZE. BUT WITHOUT CHANGES IN TAX POLICY, AMERICAN STEEL INDUSTRY CASH FLOW WILL BE INSUFFICIENT TO ACHIEVE AN ADEQUATE LEVEL OF MODERNIZATION, DESPITE THE BENEFITS WHICH MAY ACCRUE FROM THE TRADE PROGRAM.

WE WILL SUBMIT FOR THE RECORD A PAPER WHICH DEALS WITH SOME FUNDAMENTAL TAX POLICY OPTIONS WHICH WE BELIEVE WOULD BE EXTREMELY BENEFICIAL IN PROVIDING A SOURCE OF CASH WHICH THE INDUSTRY COULD USE FOR MODERNIZATION PURPOSES.

IMPACT OF TAX POLICY ON CAPITAL FORMATION IN THE STEEL INDUSTRY

The Current World Steel Economy

The United States steel industry, historically, has seldom attained a level of profitability equal to the average for all manufacturing industries. Nevertheless, through 1981 the industry had generally at least been profitable; in fact, more profitable than most of its foreign competitors. In the last two years, however, the domestic steel industry,has been devastated by the effects of a worldwide recession which has totally disrupted international steel markets. The result has been a substantial increase in the level of U.S. imports as a percent of domestic consumption from less than 17% in the period 1979-81 to more than 25% in recent months, and by a virtual collapse of the market prices due to the high level of imports which are entering the domestic market at less than production costs. Although the domestic industry has improved its competitive position substantially by reducing costs about $100 per ton* in the last few years, and production has risen substantially, the industry has only operated at close to the breakeven point in the first half of 1984. Industry profitability is not assured for the balance of 1984 despite the unexpected strength of the economic recovery.

There is no free trade in steel. Most foreign steel production is either owned outright or heavily subsidized by the State. Global trade in steel is managed through bilateral agreements or unilateral restraints, thereby targeting the full pressure of world overcapacity on the U.S. market and the U.S. producers. The existing US-EEC arrangement is a recognition of this fact. The strong dollar and the third world debt crisis have further exacerbated an already unmanageable situation.

* World Steel Dynamics estimate

Elimination of the price depressing effect of dumped and subsidized foreign steel is an absolute necessity if the industry is to achieve a reasonable level of profitability. Foreign government steel pricing policies which ignore the costs of production in order to achieve national political and social goals rather than attempt to earn competitive economic returns have had an adverse effect on the domestic industry's sales volume and revenue. This has increased average unit costs and artificially suppressed selling prices for all steel sold in the U.S. This has caused profits and cash flow to drop below the amount necessary to even sustain the industry at its current level of capacity. To the extent this continues in the future, the result of such practices would be a direct reduction of the rate of return on capital for the U.S. steel industry which in turn reduces the potential for the industry to raise the necessary capital for future investment.

Countervailing duty and anti-dumping statutes, which have been used extensively by the industry, (over 150 cases filed since 1982) provide some relief from such practices through higher duties or other types of arrangements. To the extent that the subsidies on foreign steel can be successfully offset by countervailing duties or other appropriate means, the U.S. price of steel should strengthen. The rate of return on capital investment in the industry would be higher, enabling domestic firms to attract more capital and sustain a higher level of investment and capacity than would otherwise be the case.

However, unfair trade cases are incapable of addressing a problem of the breadth and magnitude of the steel import problem. Although 150 cases have been filed since 1982, the impact crisis only continues to worsen. To date this year, nine countries have been supplying steel at an annual rate of one millions tons or more. Fifteen have been supplying steel at a rate of 400,000 tons or more. Fifty-three countries in all have been supplying steel in measurable quantities. Multiply these by at least 30 different product categories and one begins to appreciate the impossibility of using existing unfair trade laws to eliminate unfair trade on a case by case basis.

The single most critical factor for the survival of the industry is to attain a reasonable level of profitability which can be sustained through cyclical periods. The principal source of improvement in steel profitability, and the related increase in capital availability must come in the form of comprehensive relief for a period of five years from the disruption of the domestic steel market caused by the factors discuss above. One other major ingredient of profitability is increased productivity which can be enhanced by investment in modern, technologically advanced production equipment. The following sections discuss the potential for using tax policy to create capital for such investment, and recommends alternatives which would be of significant benefit to the steel industry.

The Steel Industry Needs to Modernize its Capital Base

The industry has under-invested in its capital stock for more than twenty-five years. In 1978 it was estimated that a complete integrated green-field site would require a capital cost of $1,000 per ton of annual shipments to construct. Using constant 1978 dollars, the annual industry capital expenditures (excluding non-steel and mandatory environmental expenditures) declined from $33 per ton of shipments in the period 1959-68 to $25 in 1969-78 and finally to $20 in 1979-82. In 1979, the latest year for which data is available, the average age of all steel production equipment was 17.5 years with one-third of the equipment more than 20 years old. The last green-field integrated steel plant was built during the late 1960s and it is unlikely that another will ever be built.

The failure to maintain an adequate level of investment is a simple consequence of the unfavorable economic condition of the industry over time. As early as 1975, the industry was actively supporting tax policies which would favor capital formation. The simple truth, however, is that the industry has historically ranked at or near the bottom of all industry groups in terms of return on investment, or any other measure of profitability. This, coupled with depreciation lives which did not reflect the substantial inflation in construction costs and which were the longest of any industry, made it impossible for the industry to generate sufficient funds internally to maintain the required capital base. During the 1970's, on the average, capital expenditures exceeded internally generated funds by $1.5 billion per year. To compensate for the deficit of internally generated funds, steel companies have had to increase borrowings. However, this has resulted in debt to invested capital ratios exceeding 50% compared with ratios averaging about 25% only 10 years ago. The high debt levels and lower profitability have resulted in reduced debt ratings for the major steel companies in 1982 and 1983, which limit the industry's financial capacity for additional increases in debt load and further aggravates profitability, due to increased financial costs on new debt issues. In addition, the six largest steel companies reduced dividends over 70% during the past two years. These reductions, combined with low ratios of market price to book value and limited expectations for substantial improvements in industry profitability and cash flow, restrain the industry from raising any significant additional equity capital at reasonable costs.

Capital Requirement: 1984 - 1989

It appears that the present economic recovery has essentially passed the domestic steel industry by. The severe consequences of lost volume, price depression and the high cost of facility closings has considerably weakened the financial position of the industry and limited its ability to finance necessary planned modernization (estimated $5 billion annually).

It is exceedingly difficult to estimate the future capital requirements and rate of return to capital in the steel industry with any precision. As for any industry, there is a long list of determinants of the rate of return to capital, but in the case of steel, some of the elements appear to be particularly unpredictable.

The prospects for good growth rates over the next several years appear to be quite favorable, although the risk of an unexpected downturn cannot be ignored. Since steel demand is closely related to the level of real investment and the consumption of major consumer durable items, the realization of continued strong and steady growth in the economy is particularly critical. At the same time, however, the intensity of steel use as a component of GNP has been declining. Equipment investment is shifting toward electronics and other advanced technologies and away from the larger quantities of steel in their construction. Similarly, the amount of steel used in automobiles has dropped noticeably in recent years, in response to increased energy prices.

Despite problems of estimation, it appears that a number of promising processes and investments are available currently to the industry. Since November 1980, the industry has identified over $7 billion of major projects which are essential to modernization and improved productivity. Most of those projects have had to be deferred as the industry suffered through the worst economic period in its history -- $6 billion of losses in 1982 and 1983 alone and less than satisfactory results for the balance of the period.

Using Tax Policy to Create Capital

The underinvestment which characterized the industry for the past 25 years is likely to continue simply because, without a new source of capital, there does not appear to be any major change in the ability of the industry to obtain sufficient financial capital from internal or external sources.

A major source of capital which will be available to the industry eventually is in the form of the reduction of taxes payable in the future as a result of activities which have taken place in the past. Specifically, at the end of 1983, companies in the steel industry had earned $1.2 billion of credits as a result of investment in productive equipment which could not be currently realized. Most of this amount originated prior to the recent loss years when companies were profitable. The excess credits have occurred simply because the level of capital investment was high in relation to the level of profitability. The losses sustained in 1982 and 1983 merely compounded a problem which had developed over a long period of time.

In addition to the credits, there is in the aggregate about $5 billion of net operating losses available to reduce future taxable income. At the current statutory rate, that equates to about a $2.3 billion future tax reduction.

Given the absence of available sources of capital, and the demonstrated need to modernize, it is obvious that the industry has a critical need for the cash now, rather than in the future. We believe that legislation which would permit immediate access to the cash through one of the alternatives discussed below would be consistent with established policy considerations, and would not result in any net decrease in revenues over time.

related provisions of the law which permit that subsidy to be recognized in other tax years merely insure that the basic policy can be accomplished. The fundamental policy consideration of the net operating loss provision is that the cyclical nature of economic performance should be recognized. A tax should not be extracted only during a period of economic prosperity without some provision for an offset during a comparable period of economic decline.

Investment Tax Credits

There are a number of ways in which the subsidy effect of the unused investment tax credits* could be made equally applicable to all companies regardless of their level of profitability. This would make the provision more equitable by making the policy objective applicable to all.

1. Direct payment of unused credits. This could vary anywhere from an immediate full payment without restrictions to a discounted payment with restrictions such as a reinvestment or repayment feature. A variation would be to permit unused credits to be sold directly to profitable companies which could use them immediately.

2. Extend the carryback period. Unused credits could be carried back to 1962 and used to reduce prior tax liabilities. In order to be fully effective and reflect current policy, the limitation on the amount of tax which can be offset with the credit should be increased in the earlier years to the current level of 85%.

*With appropriate modifications, the concepts stated below could be made equally applicable to the depreciation portion of net operating loss carryovers.

3. Offset against other taxes. The investment tax credit could be used to offset the minimum tax or the net Federal tax effect of an appropriate amount of deductible taxes -- payroll taxes, excise taxes, etc.

4. Exchange credits for government securities. The negotiable interest bearing government securities could have a maturity of 7-10 years. This would permit companies to get the cash now by selling the securities but would delay the revenue impact to the government until maturity. Proceeds could be committed to investment.

5. Create a construction fund. The government could establish a construction fund in an amount equal to the amount of credits and reimburse the company for expenditures as they are made for approved modernization projects.

There are variations of these concepts but for the most part they merely change the timing of the use of the credits from the future to the present. With a fifteenyear carryover and a FIFO application, the future use of the credits is virtually assured. Therefore, in the long run the approach would be revenue neutral since the credits would be removed from the carryover stream and tax payments would automatically increase in the future.

Net Operating Losses

In the case of net operating loss carryovers, the law already permits a rationalization of income and losses over a 19-year period. Current revenue considerations, and perhaps some administrative problems, are the main reason why the bulk of this period is in the future, rather than in the past. As a matter of tax equity it makes more sense to permit losses to be carried back to a greater extent to recover taxes already paid than it does to defer the application to the future when the fact and timing of tax payments to be reduced is uncertain. For the most part, the three-year carryback is adequate to respond to modest cyclical variations. When, however, one industry is so devastated by an economic depression as to incur tax losses of $5 billion in just two years compared to an average taxable income in previous years of perhaps only 10-15% of that amount, the system is inadequate and the carryback period should be extended in order to provide equity among taxpayers. Any administrative problems would have to be dealt with and legislation could be written to cover only extreme cases involving severely disproportionate losses.

Future Access to Capital Asset Investment Incentives

Once the problem of the past has been resolved, it would be prudent to ensure that the same situation does not develop again over time. Basically, this would require equal access to capital asset acquisition incentives in the future. There are several ways in which this could be done:

1. Reinstate a tax benefit transfer mechanism similar to safe harbor leasing but with safeguards to prevent the abuses by the lessor companies which caused safe harbor leasing to fail for political rather than economic reasons.

2. Set up an optional capital recovery system administered directly by Treasury which provides essentially the same cash effect as was provided by safe harbor leasing to the lessee company, but without having to interject a lessor company to accomplish the end results to the lessee.

3. Remove the investment tax credit and depreciation/ACRS completely from the calculation of taxable income and tax liability -- create an account to be administered by Treasury from which construction grants in an amount equivalent to the tax effect of the ACRS deduction plus investment tax credits would be paid directly to companies to reimburse them for capital investments.

4. Create a new form of equity security for public sale with the "dividends" to be in the form of a share of the future investment tax credits earned by the selling company and transferred to the security owner.

This recommended approach will not result in any lost revenue to the Treasury over time. It will, however, treat less profitable industries such as the steel industry more equitably and most important, it will make a source of capital available to the industry at a time when its survival is being severely tested.

COMBINATION OF SPENDING CUTS AND REVENUE INCREASES EXPECTED

Senator **Quayle**. I hope that we might be able to surprise you a little on that political will, but you may be right.

What you're telling me—and let me ask the other two—you expect that the Congress is probably going to go down this route, not get all the cuts and, therefore, resort to some sort of revenue scheme; isn't that basically what you are saying?

Mr. **Post**. I think that you've got to deal in the real world, based on past experience, what we've seen and——

Senator **Quayle**. Your expectations are that the Congress is going to march down that road and try to get as many spending cuts. They will say, "Whoops, we came up a little bit short," and there's going to be some sort of a tax, maybe something like an energy tax, the one that comes to mind.

You're not going to see an increase in income tax—I can tell you that. There's not going to be a surtax, but something along the lines of energy tax—that's what you're telling me, that's what you expect; is that right, Mr. Murphy?

Mr. **Murphy**. That's exactly what we expect. I think the people in this country have the political will; I'm not sure the Congress has the political will. Certainly, the people in this part of the country have the will to make the cuts that are necessary; and the feeling is that you will go just so far, that Congress will go just so far, and back off making cuts, and have to go to the revenue side.

And even at the revenue side, there aren't enough dollars to be able to really make a major dent unless there is a severe cut and changes in the tax policy to raise significant dollars.

We're talking about major, major dollars here, and the Congress keeps walking past, as if it will be taken care of later. I don't see the will in Congress.

Senator **Quayle**. Well, I think there is a recognition, at least a beginning, to see in this will, at least to tack it on the deficit, on spending cuts, to try to move in that direction. It's bipartisan—I mean there's a disagreement; and you add up defense, interest on the debt, and income security programs, you've got 80 percent of the budget.

Mr. **Murphy**. The 85 percent of the budget.

Senator **Quayle**. Then you get into the things like the mayors were talking about, UDAG, revenue sharing. Our share now to State and local communities is about 6 percent of the budget; in 1960, I think it was 5 percent, so it's been somewhat static, but 1 percent is a $10 billion reduction, and that's probably about what they are going to take.

Then you get into education programs and things of that sort, I think that the people will support and want to see this deficit reduced by spending cuts. But also, I'm finding out that you really don't believe that we're going to do that.

So this is not going to come as any great shock as they march down this road and Congress says, "Whoops, we're not going to be able to do it," and then, therefore, you get—very interesting.

ATTACKING THE DEFICIT DOESN'T ADDRESS THE DEBT PROBLEM

Mr. **Murphy**. Also, attacking the deficit doesn't begin to address the debt problem.

Senator **Quayle**. The accumulated national debt.

Mr. **Murphy**. You've got $2 trillion just sitting there.

Senator **Quayle**. Somehow, we've got to stabilize that debt in relationship to GNP. It has been stabilized in the last 2 years, and we've got to get that moving down, the debt, because otherwise it's going to get up to like 50 percent. It's over 40 percent right now, and if it doesn't start to come back down, then we really are going to get ourselves in a real bind.

Mr Hyde. One suggestion. It's always amazed me, in looking at the social programs which have a lot of opprobrium if you attack the wrong ones, that someone doesn't categorize them on how much of the funds in this particular program really flow into the pockets of the alleged beneficiaries.

Some of those programs are very good, and the administration costs and overhead rather low; other ones are atrocious—everything is eaten up and they're lucky to get 10 cents on the dollar into the pockets of the poor person or the disadvantaged person who is the alleged beneficiary.

If you could put those in decending order of flow-through, you might have a legitimate basis for attacking them without being called heartless or insensitive.

Senator **Quayle**. We could carry on for a long time on——

Mr. **Hyde**. I know, but that's one that has always bothered me, and I had to pass it on.

Senator **Quayle**. I appreciate that. I appreciate your testimony, your full statements will be included in the Senate Budget Record, and I certainly appreciate all the good ideas. They are food for thought. Good luck, and let's appreciate the support to go back there and give it to other people and just see what we can do.

Mr. **Hyde**. Good luck to you and thank you.

Senator **Quayle**. Mr. Groom, Mrs. Sheets, Mr. Weatherford, and Mr. Morris.

Welcome, and I hope you can give us your bottom line, too, as we beg indulgence and brevity for the sake of time schedules. Mr. Groom.

STATEMENT OF GARY L. GROOM, EXECUTIVE VICE PRESIDENT OF FINANCE AND SECRETARY, COACHMEN INDUSTRIES, INC., ELKHART, IN

Mr. **Groom**. Senator Quayle, thank you for the opportunity to participate in this hearing. I am here to testify on behalf of the manufactured housing and recreational vehicle industries which are very dominant in the Elkhart County area.

MANUFACTURED HOUSING AND RV INDUSTRIES AFFECTED BY INTEREST RATES

There are two items that I think affect those industries that are appropriate for discussion at this meeting. They are interest rates and the health of the economy.

Interest rates affect manufactured housing in much the same way site-built housing is affected. When interest rates are high, potential buyers of homes are squeezed out of the market because payments become too large for them to afford.

In the case of manufactured housing, this impact is lessened to some extent in that a portion of the potential buyers of the relatively higher priced site-built housing choose to buy the more affordable manufactured housing. Still, this is not enough to offset or to prevent total manufactured housing sales from falling as interest rates rise.

Recreational vehicle sales are also affected by interest rates. When rates are high, dealers cannot afford to stock as many motor homes and travel trailers in inventory as they otherwise could. This results in less sales since the selection available is limited.

Interest rates affect RV consumers also. For consumers who finance their purchase, interest rates cause the same type of impact that is felt in manufactured housing; that is larger payments.

Both the RV and manufactured housing industries are also affected by the general state of the economy. As consumers' confidence levels rise with respect to their present economic position and their perception of future prospects, they are more likely to make purchases of housing and other durable goods, such as recreational vehicles.

Thus, it seems the well-being of a good portion of Elkhart's residents, and many of the surrounding communities, who are dependent for their livelihoods on these two industries, that we must have lower interest rates and a good economy.

CUT GOVERNMENT SPENDING TO LOWER DEFICIT

How do we get lower interest rates and still have a good economy? We do it by, as many people have suggested here, lowering the deficit through lower Government spending.

There are several reasons for this being the case. In recent years much has been said about how the private sector is being crowded out by the Government sector. Crowding-out occurs because Government spending preempts real resources from being used by the private sector, where they are acknowledged to be used more efficiently and effectively. Crowding-out occurs whether the government finances its spending by borrowing or by taxing.

Crowding-out cannot be reduced by raising taxes to reduce borrowing. It can only be reduced by reduced spending. The obvious implication is that spending should be reduced regardless of the deficit situation.

I do not wish to imply that deficits don't matter; I am saying that spending matters more.

It is not only private investment that is crowded out by Government spending; more importantly, Government spending, particularly transfer payments and entitlements, crowds out incentives and undermines both private property rights and self-reliance.

MAIN PROBLEM WITH GROWTH OF SPENDING

The main problem with the growth of spending is the transformation of America from a free society to a welfare state as the productive elements of society are left with only a residual claim on the income and wealth they generated after all levels of Government are finished redistributing their wealth to politically deserving.

The growth of Government has brought about an enormous transformation of U.S. society. Over most of our history, there has been neither an income tax nor a welfare system. Yet, during this period our society absorbed millions of destitute immigrants and rapidly reduced poverty rates.

Today, poverty has been institutionalized by the Government's programs and the poverty rate no longer declines. Now, only the illegal poor, the aliens who cannot qualify for the Government programs, are consistently able to work themselves out of poverty.

By undermining private property rights, a welfare state restricts opportunities for all, on the grounds that otherwise some will succeed more than others.

REDUCE SPENDNG AS PERCENT OF GNP

Our society's future depends on the economy growing faster than Government spending. Your goal, Senator, should not be for a fixed amount of budget cuts, but Government spending declining as a percentage of GNP.

I am well aware that much of the reason for the recovery we currently enjoy is the result of deficit spending. But as President Reagan indicated in his State of the Union Address, we're back on the right track again and can absorb now a reduction in Government spending without as much pain. The locomotive of free enterprise has momentum and needs much less fuel to keep it rolling.

As fiscal policy is tightened by reduced spending, it is recommended that monetary policy be loosened somewhat to facilitate the continued expansion of the economy, while keeping interest rates level, or possibly allowing them to decline, and crowding-out is lessened by the reduction in Government spending.

All of us from the Elkhart area recognize great care must be exercised in monetary policy, as none of us wants to see a resurgence of inflation which would surely cause a rise in interest rates.

MODIFIED FREEZE ON GOVERNMENT SPENDING IS MOST LOGICAL

As to how Government spending should be reduced without an increase in taxation, the use of a modified freeze on Government spending is most logical. The term "modified" reflects the need to allow for some discretion in projecting outlays. Entitlements, for example, cannot be frozen absolutely because of the growth in the eligible population.

A freeze on Government spending accomplishes the goal of reducing spending as a percent of GNP. It also accomplishes it in a manner that is most acceptable to the general population. In other words, no special interest group is going to allow reduced spending in their area unless all other groups have been asked to do the same. It's just human nature.

In conclusion, the Elkhart area, the manufactured housing and recreational vehicle industries are not unlike nearly everyone else who gave President Reagan his recent mandate. We want to see a good economy with low interest rates. This is accomplished by unleasing the full potential of our free enterprise system by lessening the impact of Government.

Specifically, we would recommend that we should freeze Government spending with some modification. We should not increase income taxes; we should loosen monetary policy as we reduce Government spending. We should constantly strive to lower Government spending as a percentage of GNP.

Thank you, Senator.

Senator **QUAYLE**. Thank you.

Judy, 3 minutes.

STATEMENT OF JUDITH E.A. SHEETS, DIRECTOR OF PLANNING AND DEVELOPMENT, CALUMET COLLEGE, HAMMOND, IN

Ms. **SHEETS**. As usual, my testimony is a little bit different in terms of structure and approach. I firmly believe that how we go about reducing the deficits is every bit as important as accomplishing that task because it will have a direct effect on how it is accepted by the country and how it is put into place, both now and in the future.

So I would like to establish some evaluation criteria that we can use not just in any one given program, but across the board on all budget items.

DETERMINE WHAT IS AND IS NOT ESSENTIAL IN THE BUDGET

The first one would be to determine whether or not the item is an essential or nonessential issue. That does not mean that we do not fund nonessential issues, it just means that we do determine what is and is not essential in the budget.

From that point in time, we then have to look at each one, both essential and nonessential, and evaluate them to determine how much and to what extent we fund.

ELIMINATE WASTE IN THE BUDGET

Second, I think it's important to evaluate, is there now or has there ever been waste in these particular programs? Perhaps the most painless way to eliminate the deficit is to eliminate the waste in the budget.

It's very difficult for the country to sit here and have our President tell us that we have to take courage in budget cuts when we hear that we are spending a dollar for a cotton ball and, in some instances, as they say, $600 for a toilet seat was one of the examples that was used in some of the earlier hearings.

It's important that we look at this waste issue. Management is critical. Improper management of Federal funds is absolutely inexcusable. Unfortunately, many people look at Federal dollars as not being as important in terms of how we handle them as our own money. It is our own money, and we must look at the waste issue.

JUSTIFY SPENDING FOR PARTICULAR PROGRAMS

Third, I think that we need to actually see what we are getting for our money, not just a matter of whether or not we need a particular program but whether or not we are getting what we should out of the program. All the need in the world does not justify spending one more dime if that program is not performing.

ROLE OF THE FEDERAL GOVERNMENT

Fourth, why is the Federal Government involved in this, what are we doing in it, and do we have a role in this particular thing?

We've done a lot of spending in the past based on glittering generalities. Anyone who attacked educational spending was attacking quality education and, therefore, it became a sacred cow that couldn't be done.

Now, we are saying to our educational systems, "Show us what you are doing with the money," and I don't believe there should be any sacred cows—whether it's the national defense or urban blight, or social justice, or quality education; each one needs to be looked at, the role, what we're doing and what we are getting out of it.

EXAMINE IMPACT IF FUNDS ARE WITHDRAWN

And fifth, what happens if we withdraw the funding or cut it? Impact is terribly important. Impact is not the same as need. Unfortunately, most of the time when we look at impact statements, they get to be reworked need arguments as opposed to actual impact.

But we need to see what happens; are we, in fact, incurring increased spending in another area because we have cut it in what looks like a nonimportant or nonessential area that is actually a prevention issue. So we need to actually examine what is the impact.

Every one of these elements need to be considered in any given budget cut, and I think that they need to go across tbe board; there should be no sacred cows.

Most of the country is willing to accept the equitability of a fair examination of the budget; we are all willing to take our share of the cuts but, it had better be across the board and with everyone.

EMPLOYMENT AND TRAINING PROGRAMS IN JTPA

Using this criteria, I'd like to look at my specialty area which is, of course, employment and training programs in JTPA.

JTPA, as you well know, recently went through a real soul-searching experience. CETA was very wasteful; we had a lot of questions about whether or not it was actually providing what it was meant to, and the change from CETA to the Jobs Training Partnership Act was designed to actually address some of the critical issues in how we spend Federal money.

Basically, employment and training programs are not an essential category, but that does not necessarily mean that they should not be funded.

There was waste in the past but this waste has, as we, hopefully, believe, to a great degree, been eliminated by the establishment of set limits on the administrative spending, removal of the quasi-maintenance programs that were in place under CETA, and, most importantly, in actually putting in performance standards that would measure what we get.

We can measure now under employment and training programs, at least under JTPA, as an example, what we are getting. We know that our per entered employment rate currently, in round numbers, is around $5,000. That means that if we spend $1 million, we're going to be putting 200 people to work. Those are actually placement rates.

That means that people who were tax consumers now become taxpayers and tax contributors which, in the business world, would be considered a profit, because you are significantly alleviating the drain in many other areas on the Federal budget and on the State and local budgets also.

Employment is a national problem; this is not something that can just be handed down to the States and expect it to be handled.

PERFORMANCE CONSIDERATIONS

What happens if this is eliminated? Well, basically, what happens is that we have a lot of people who will continue to be tax consumers and not taxpayers. But there's a much more important consideration when it comes to employment and training programs, not just JTPA but many of the others, and that is the performance considerations.

The real key to this is that we have set performance standards. There's a serious question now whether or not those performance standards will be enforced. There's a lot of conversation across the country—when a fairly high- level State official in another State was asked if he really felt that any JTPA project would be shut down because of lack of performance, he said, "Of course not," and I think that is ludicrous.

I believe that unless we are prepared to enforce the performance standards on this particular piece of legislation, in this particular field, there is no reason to fund in this field, and the two absolutely go hand-in-hand.

OTHER PROGRAMS FACING CUTS

As far as the other cuts—and I'm sorry that I did not give those in my actual written testimony because I had not received the information from Washington—there are cutbacks in title III that are suggested. The Job Corps is supposed to be eliminated. The targeted job tax credits are to be terminated; the Work Incentive Program, WIN, is to be terminated, and the trade adjustment assistance retraining funds will not be funded.

In many instances, we see that these are programs that were not put under performance standards and are not—and have not necessarily provided justification for their existence, and so I think that some of these need to be looked at in that way.

TAX ISSUES

I have one more area that I would like to address and then I will conclude, and that is tax issues.

In another vein, we have some proposals for tax changes, and one is to completely redo the tax base and go to some of the flat tax proposals.

Notable in its absence in the President's comments in his State of the Union speech was the issue of the charitable tax deduction. I think that it's terribly important to look at the impact of this kind of a tax change.

For the purposes of examination, I will look at it in the field of education. It most seriously impacts the postsecondary educational experience, and this has some long-range effects that I think we need to carefully examine.

Basically, it is the private institutions that depend more heavily upon the charitable tax deductions in order to generate moneys to support themselves.

The public institutions can always turn to their taxsupported base units for further funding to make up for the deficit. There is no alternative funding source readily available for private institutions.

If this funding cut occurs—if this, in effect, funding cut occurs through the elimination of the charitable tax deduction, one of two options will be open to the private institution: One would be to close their doors which would limit the number of educational institutions available in this country; and second, to increase the cost of the education in that institution which would have the effect of eliminating the opportunity for many people who could not afford to pay more money for the educational experience.

Students who traditionally go to private educational institutions are already predisposed toward education and would turn to the public institutions, which would mean we would incur additional costs in either supporting a larger base or we would have to limit public education—public educational opportunities.

This seems to be an entire reworking or our postsecondary education, and I don't believe that's a tax issue. I think that it should be looked at in another vein.

Thank you very much.

Senator QUAYLE. Thank you very much, Judy.

[The prepared statement of Ms. Sheets follows:]

TESTIMONY BEFORE

UNITED STATES SENATE
BUDGET COMMITTEE

FIELD HEARINGS
ON THE
UNITED STATES BUDGET

BY

JUDITH E. A. SHEETS

CALUMET COLLEGE
2400 NEW YORK AVENUE
WHITING, INDIANA 46394

FEBRUARY 14, 1985

INTRODUCTION

Prior to the release of the President's proposed budget, I had a very different thrust to my testimony. I had anticipated limiting my comments to specific topic areas. Now I would like to do so in a different context.

Few people would argue the premise that current budget deficits are excessive and further, that we must bring them under control. It is important to understand that how we go about determining where the budget cuts must occur is every bit as critical as making those cuts. Budget consideration should not be a matter of survival of the strongest self interest group.

The review of potential budget cuts should be equitable. If the American people are to have programs eliminated, services cut and opportunities limited, then it is imperative that there is the assurance that everyone has been treated with equal consideration.

For years I have had a quote on my wall. It has been so long that I do not even know what the source is. But it states, "It is a profound historical mistake to believe that the Russian revolution - and all revolutions like it - was caused by 'radical agitators'; it was caused, like the others, by the obstinate refusal of the ruling class to modify or compromise its rigid exclusivism." With decisions having such widespread effect, it is important that no one feel as if any budget category is "above examination." It is our responsibility. Now more than ever, it is critical that some logic and structure be given to budget considerations.

EVALUATION CRITERIA

The first step is to establish guidelines or criteria measurements by which every aspect of the budget can be considered. Under no circumstances should there be any sacred cows that are "beyond examination." Anything worth funding under the federal budget is worth examining.

How then do we examine the federal budget? It is natural for any given special interest group to argue from their strongest position. In attempting to examine anything as varied in subject and scope as the federal budget, it is important to have a structured format for item analysis. The analysis should ask the following questions:

1) Is this item essential or non-essential?
2) Is there now or has there been evidence of waste in this item area?
3) What do we actually get for the money spent on this item?
4) Why is the federal government funding this item? Is it the role of the federal government to do so?
5) What happens if the funding is cut or withdrawn?

IS THIS ITEM ESSENTIAL OR NON-ESSENTIAL?

Any special interest group is going to argue that a given item is essential. The more basic question is, can we run this government without it? This brings the concept of essential. In some instances there are issues that involve predetermined and irrevocable commitments that are not as much an issue of running the government as they are a non-negotiable commitment. An example of this would be the interest on the public debt.

The determination of essential versus non-essential has in the past been a reflection of what we have become used to. There is no question that many valuable activities were federally funded that are non-essential. Designation of non-essential does not put an item on the chopping block. It only establishes the premise that the "if" of funding will be judged by other measures. I am not trying to say that the federal government does not have a legitimate role in providing non-essential services or funding.

Neither does it pre-suppose that an essential item is free from further examination. The determination of essential only removes the "if" aspect of funding consideration. However, "to what extent" and "how" are still issues. Essentials or not, all funding considerations must be scrutinized.

Is There Waste?

Regardless of how essential a general category may be. We must still examine the issue of waste. Waste comes in many forms. Management waste is perhaps the most unexcusable. Non use of materials, under-utilization of manpower and facilities, over-purchasing, poor control of goods and services, and excessive procurement costs are all examples of management waste. It is difficult for the American public to believe a president that assures the nation that we must have the courage to face budget cuts, when investigative reporters are telling us that we have just spent $1.00 for a cotton ball or $700 for a common screw. It would seem that fewer sacrifices would be necessary if the federal system were to manage its waste issues.

Often federal money is not treated as real money. There is an all too common attitude that if you waste federal dollars, it really doesn't count. The struggle we now face in attempting to make major cuts in the budget is in part a result of that kind of attitude.

Attitude alone is not to blame. Our funding patterns have actually discouraged efficiency in program management. At the end of any given fiscal year there is a great push to use up the rest of the money in a program budget. The logic is simple. If a program returns unspent money it is subject to having the next years budget cut by at least the amount of money it returned.

It would be interesting to see the figures on how much money is encumbered in the last two months of any given fiscal year. I do not know if carry-forward is the answer, but punishing the efficient is not.

Whether the waste is a management issue or a structural issue, it should be corrected. The basic tenet of fiscal control is to insure that money spent is well spent. It is impossible to address what has already happened but that does not mean we must continue to make the same mistakes. All programs regardless of priority simply must be examined for waste. It is clearly the most painless method of cutting the budget.

WHAT DO WE ACTUALLY GET FOR THE MONEY SPENT?

Examination of cost benefit is valid in both essential and non-essential spending. It only makes sense to determine if we are getting value for our expenditures.

In some instances this is easy to measure. It is made easy by the fact that the results of spending can be easily quantified. "X" amount of money spent, resulted in "X" number of miles of highway being built. This kind of quantification can then be used as the basis for comparative studies. Is this a reasonable price per mile? Was this the anticipated cost? Could it have been more cost effective? How much is the road used? The criteria for evaluation will change depending on the subject area, but it is essential that some form of cost benefit analysis be included in the examination of such expenditures.

Admittedly, this task becomes more difficult when applied to less measurable service programs. It may be more difficult, but it is not impossible. There was a time when service programs could speak in terms of intrinsic value. When money was abundant such justifications were acceptable. In part it was acceptable because we believed if we throw enough money at a social problem it would go away. That did not prove to be the case and may be one of the reasons why such programs are so vulnerable to current budget cutting activities.

It has become important to look at quantifying those efforts. The best example of this kind of change can be found in the contrast between CETA and JTPA. Under CETA, the operating philosophy of "best effort" came under a great deal of criticism. Someone finally said that if the federal government was to fund training programs it should logically be expected to result in people actually becoming gainfully employed in the non-public sector.

In addition to actually quantifying the results of spending, for the purpose of cost analysis it is important to address need fulfillment. When examining how money is spent the real responsibility of the oversight activity is to determine if the funding resulted in the need actually being met. All the need in the world would not justify expending one more dime if the program was not effectively addressing the need.

WHY ARE WE FUNDING THIS PROGRAM? IS THIS THE ROLE OF THE FEDERAL GOVERNMENT?

We have seen the federal government simply declare that a given function is really more appropriately dealt with on a state level and thus absolve itself of any fiscal responsibility for the function. In the last two decades the federal government's role has expanded. If it is to now contract, it must seriously question the rational for the original involvement, the dependency structures it has created by getting involved, the effect of federal withdrawal, and the future implications of continuance or withdrawal. It is not good enough to just cut programs because the federal government never should have gotten into them. The fact of the matter is, the federal government did get involved and in so doing accepted responsibility for its involvment. Thot responsibility should include an examination of the effect of any withdrawal. That does not mean that the federal government must be able to guarantee the continuation of any given program, but it must maintain some level of responsibility in the event there is potential serious repercussions to that withdrawal. There is enough waste to be cut from the federal budget that there is no need for the federal government to blindly create future problems that have more costly consequences because no one took the time to examine the consequences of a given decision.

It is a little like having a baby. Once done, the question of if it should have happened is moot. There is a responsibility that must be dealt with in one form or another.

As a country we have become comfortable with glittering generalities being used as the justification for government spending. Once again, this may be a result of the attitude that federal money is not real money. With any luck, the day of the glittering generality is fast coming to an end. No longer can educational systems hide behind the claim of "quality education".

They must now demonstrate that the educational process is actually resulting in measurable progress for the student. No longer can urban developers pour tons of money in the revitalization of the urban core. Enough time has passed that it is clear that some of these programs show results and others do not and we as a nation want to know why. No longer can thk cry for social justice justify any and all spending for social service programs. As a nation we are beginning to ask what is actually being accomplished for the money that has been spent.

What is true for these programs must now be true of our current glittering generality. Saying that we need a strong national defense can no longer be an allowable smokescreen for unbridled defense spending. This like all other programs must be asked to determine what it is that this nation is getting for the dollars that are being spent. To allow any item of the budget to be exempt from examination is to create an inexcusable inequity.

It is time that the people of this nation stop being blackmailed into believing that any function of the government is above scrutiny. We must be prepared to examine such apple pie issues as social justice, quality education and a strong national defense. It is not unreasonable to ask what we are getting for our money. It is unreasonable not to ask.

WHAT HAPPENS IF THE FUNDING IS CUT OR WITHDRAWN?

Just as it is important to examine what we as a nation are actually getting for the money spent, we must also understand the impact of not spending the money. There is a real danger in examining the issue of impact. Impact is sometimes hard to estimate. Very often the projected impact becomes shrouded in potential human suffering, deprivation, and in some instances sociological blackmail. Because of this there is a danger of having congress respond in a legislation by example mode. One special interest group makes a strong case based,on the horror stories of what will happen if funding is cut. Congress responds to the example and restores the cut regardless of the fiscal soundness of that decision.

Believe me, for every budget cut there is someone willing, ready and able to produce a heart rendering horror story of the potential effect. Very often when the impact is carefully examined, it is nothing more than a reqorked need argument and not a true impact analysis. We already know that we cannot expect to maintain current spending levels and that cuts must be made somewhere. Policy for a nation should not be set by example, but rather by examining the system as a whole and determining the best and most effective use of the resources we have at our disposal.

That is not to say that impact should not be considered. It should! However, it must be examined in a more objective and systematic way. To do this, we must look at a number of elements.

1) How many people does the budget item directly effect?

2) What is the nature of the effect?

3) What was done before there was federal funding?

4) If funding is withdrawn, what would be the first and most immediate source of alternative funding? The second?

5) Is there value in cuts without total withdrawal of funding?

6) If so what is the nature of the acceptable cuts?

7) Is there a more economical or practical way to offer the same kind of program? If so what?

8) Does the elimination of this item result in additional cost in another area? If so what area? What are the comparative costs?

When an impact study answers these basic questions it provides a more objective picture of the impact. It might also be advisable to request various special interest groups to provide such information in order to economize on congressional staff time.

There remains another danger involved in examining impact. Here more than in other areas of examination, the issue of survival of the strongest power group enters the picture. This is to the direct detriment of powerless groups. It is easy to eliminate the programs for the powerless. But remember, gone may not be eliminated. Very often the system has become involved in intervention and prevention. As a result, the elimination of this service only means that the same problem will end up being dealt with in another area. This is why it is important to have examined what it is we are actually getting for money spent in a given area. That information is necessary to make a comparative cost analysis.

Impact is not the only factor that should effect decision making. It needs to be weighed with the other factors in order to achieve some analytic balance. Congress should not act solely on any one of the evaluation criteria.

PROGRAM NEED CONSIDERATIONS

Conspicuous in its absence is the area of need as an evaluation criteria. In reality, need is not an issue. Remember, Congress has already been convinced there was a need or the program would not have had original funding. Getting embroiled in need issues will only serve to cloud the process.

The logic in the "don't cut this program because it is needed" goes like this. If the need is established the program existence should not be questioned. In essence, the "if" of funding is removed and the issue becomes "how much". The flaw in this logic is that removal of the "if" does not free any item from further examination.

After all, just because a program is needed does not mean there was not waste, or that it actually delivered the services it was expected to deliver, or that the need was actually filled.

Justification for program continuation should be a function of program performance and not program need. As such need issues are not germane in funding continuation consideration.

BUDGET ITEM EXAMINATION

With the criteria established for budget item analysis, let us then apply this criteria to a budget item.

FEDERAL EMPLOYMENT AND TRAINING PROGRAMS

Is This Essential Or Non-Essential?

As established in the evaluation guidelines, this is a non-essential item.

Is There Now Or Has There Been Evidence Of Waste In This Area?

Waste has been a serious past issue in federal employment and training programs. Fortunately this is one of the areas of funding that has already done its own soul searching and house cleaning. The problems related to waste are tied to the Comprehensive Employment and Training Act (CETA) that in 1982 was replaced by the Job Training Partnership Act (JTPA). In that process the congress did examine the same issues and concerns that we now ask all program areas to address.

In the examination of waste, appropriate changes were made in the legislative structure that were designated to eliminate as much waste as possible. Spending levels for administrative and service costs were set. A clear purpose was set. This was to be training legislation. As such the law mandated more emphasis on training. Federal training legislation discontinued and the practice of becoming a quasi-income maintenance program. By clarifying purpose it is hoped that the program will eliminate the waste that is inevitable when any program looses sight of what it is suppose to be doing.

WHAT DO WE ACTUALLY GET FOR THE MONEY SPENT IN THIS AREA?

Once again the change from CETA to JTPA makes this answer simple. We actually get measurable results. Performance is measured by the number of people placed in unsubsidized employment. As such, performance means jobs. Once again this is a function of the reorganization of the legislation. It was felt that, if we were to become involved in training programs the purpose should be that the participant be able to use the training in order to secure employment. Further, if the federal government is going to expend money for the purpose, it is reasonable to expect that the effort should actually result in people being placed in unsubsidized employment.

Can these results be quantified? Yes! By establishing statutory and regulatory performance standards it has been possible to measure results. With the per entered employment cost of $5,000, in round numbers, we can reasonably expect 200 jobs for every million dollars spent. There are areas where the per entered employment cost levels are much lower, in some instances dipping to under $2,000. This tells us the direct measurement of results. There are additional indirect benefits. For every person gainfully employed, there is a resultant relief to our nations support systems, whether they be welfare, unemployment compensation, poor relief or others. In addition, tax consumers become tax payers. Even at minimum wage, an individual returns the cost of training to the federal government in the form of increased tax revenues in less than 9 years. Increase that wage to a mere $4.00 per hour and the tax payback is reduced to 6 years. The real issue concerning return for money spent is that 1) there are indeed measurable and quantifiable results, and 2) these results actually move an individual from tax consuming to tax generating. In business we would call that a profit.

WHY IS THE FEDERAL GOVERNMENT FUNDING THIS ITEM? IS IT THE ROLE OF THE FEDERAL GOVERNMENT TO DO SO?

Unemployment is a national problem. Although given areas have geographically different needs, it does not mean that the problem is a local one. In a mobile society, with an integrated economy, it is impossible to deal with unemployment effectively without some kind of a national strategy. What this country really needs is an employment policy. Lacking such, it is vital that it at least deal with some of the major problem areas relating to umemployment.

WHAT HAPPENS IF THE FUNDING IS CUT OR WITHDRAWN?

Because of the newness of the legislation, complete fiscal year reports are not yet compiled. At this point in time the Department of Labor is able to provide information concerning the transitionary 9 month initial funding period. Keeping in mind many projects were not up and running, these figures will be under-representative of the whole. The $1.4 million dollars spent resulted in job placement for 62% or 242,300 of the terminated participants. This represents a per entered employment cost of $5,838. In the title III programs the results are even more encouraging. With an initial funding level of $94,300,000, there was 72% of the terminated participants employed. This meant 36,500 people had jobs, for a per entered employment cost of $2,583.

The nature of the effect relates to unemployment levels. Since the program is geared to employ people the effect of termination of the program would be to have these individuals remain as tax consumers. The result is continued dependency on the income and services support systems of this country.

Federal employment and training programs have been in existence since the 30's in one form or another. Prior to that time the issue of unemployment was not what it is today. To compare prior involvement days to today, is like mixing apples and oranges.

It would be more reasonable to compare JTPA programs to CETA. This is the first federal employment and training program that requires results. As such it represents a legitimate attempt to impact employment.

There is no immediate source of alternative funding for such activities. The alternative type of delivery system would be the public secondary and post secondary educational institutions. The secondary educational systems have not and in some respects can not successfully address these problems. The post secondary educational systems are not really employment training institutions as such. In addition, it is necessary for an individual to pay for services in most states. As such the economically disadvantaged would be eliminated from participation. In the event that Pell, GSL, and other tuition assistance systems were used for the economically disadvantaged, then we would just see the funding responsibilities shifted from one area of the federal government to another. More than that, in shifting it we would lose the performance standards now in place. If our previous experience in federal employment and training has taught us anything, it should be that without performance requirements there is no pressure to produce a direct link between training and eventual employment.

Considering the fact that 1) this program experienced major funding cuts during the transition form CETA and JTPA; 2) it is in effect one of the few federal programs that has an effective profit; and 3) it has not yet had enough time to demonstrate its total abilities, although initial indications are very positive, it would seem premature to try to determine what areas and to what extent cuts should or could be make. Even so, keep in mind what would be cut. Every $5,000 represents an individual that will not become employed. So when you cut dollars you are actually committing the federal budget to supporting that individual at a higher level of cost in another tax supported program.

PERFORMANCE CONSIDERATIONS

It becomes clear that the real defense of JTPA in budget considerations is the issue of performance. Because tangible results are mandated in the program, there is a clear cost benefit to this budget item. Most federal spending in not as clearly tied to cost benefits. It is one of the few areas that the federal government can point to that is actually saving money if not making it, by spending money. But all of this defense is tied to how the legislation actually performs. Built into the legislation are penalties for non-performance. The growing question is, are the performance standards going to be enforced? A number of people all over the country view JTPA performance standards as a paper tiger. One high ranking state official in another state was asked if he thought any program would actually be reorganized because of lack of performance. He responded, "Of course not!"

Without enforcement of performance requirements JTPA is not enough difference form CETA to really matter. If training does not lead to employment, if per entered employment costs are not within reason, and if everyone is not required to perform, then it really does not matter how much money was spent on administration versus training, or what percentage of people are youth versus adult.

This issue is clear. If performance standards are enforced then this item of the budget meets any and all of the requirements for continued, if not increased funding. If performance standards are not to be enforced, then this item meets none of the requirements for continuation and should not be funded. We do not need the son of CETA. We need people gainfully employed in unsubsidized employment. Performance is the only justification for the existence of this program.

TAX ISSUES

Tax reform is an everpresent subject when people begin to discuss the alternatives related to deficit reduction. There are a number of proposals in front of the congress that suggest a flat tax. Simplistic approaches to complex problems can sometimes create greater problems than the ones that the approach was intended to correct. Tax reform, like budget cuts, must be examined in relation to purpose, function and impact. No one argues against the fact that our tax structure is complicated. However, the establishment of a flat tax brings certain problems that our decision makers need to be aware of.

I am familiar with the fact that a number of people have suggested that some basic exceptions be allowed to the flat tax proposals. One of these exceptions under consideration is the charitable deduction. Let us take a look at this issue.

WHO IS EFFECTED?

Any eligible 501 (C)(3) status organization has the potential of being effected. This would include colleges and universities, many hospitals and an assortment of not-for-profit service providers. It is important to understand that this does not represent "just another special interest" group. By definition they exist not to serve their own needs, but to serve broad public purposes. The charitable gift is very often a major source of support for these organizations. Because they are not in the profit making sector of society, the loss of charitable contributions could seriously jeopardize their very existence.

HOW ARE THEY EFFECTED?

For the purpose of this examination let us look at one of the major organizations to be effected, colleges and universities. The initial impact studies recently completed indicate that the loss of the charitable tax deduction would definitely mean a significant decrease in available revenues. The exact effect is dependant upon the nature of the tax reform. Enclosed in the appendix is a collection of impact studies that address the major changes under consideration and the specific effects of those respective changes.

In all cases lost revenue is the effect. This is probably a much larger issue for private institutions, as there is no government support to make up the difference and private institutions have been traditionally more aggressive about pursuing charitable donations. Without a reasonable alternative source of income, it will be necessary to do one of two things. The loss of revenues may result in the closing of some institutions. When closure is not the result, then increasing the tuition costs might be the only other alternative. This will mean that many people will be economically excluded from a private educational experience.

IS THERE AN ALTERNATIVE?

The alternatives are not evident. Certainly the federal government has been clear on the issue of governmental support for private education. There is no immediately identifiable alternative source for funding that has not heretofore been tapped. The only other alternative may be to begin to change the nature of college and university systems of this country. I am not certain that tax reform is suggested for the purpose of destroying American post secondary education as it is know today. The educational alternative for the students then becomes the government supported public education system. This could very well result in the federal and state governments being required to make significant increases in appropriations to accommodate the increased cost generated. The alternative to increased appropriations generated by increased student demand is to limit public education accessibility.

CONSIDERATIONS

This is not a simple question of closing up a tax loophole that is servicing a special interest group. The implications to the future and nature of the American post secondary educational system is not a justifiable purpose for tax reform. We are not talking about weeding out a few weak institutions. We are talking about access to education, educational alternatives, and major educational reformation. These are not tax issues, and yet tax reform could concievably force such change in the name of simplifying the system.

I encourage you to review the impact material in the appendix. Further information is available if so desired.

APPENDIX

Appendix A - Treasury Department's Tax Proposals Memo - 12-13-84

Appendix B - Impact of the Treasury Tax Reform Proposal on Charitable Giving to Universities - 12-3-84

Appendix C - A Comparison of the Costs and Potential Economic Benefits of the Treasury Proposal on Charitable Giving - 12-11-84

Appendix D - Tax Reform and Charitable Giving: Focus on Higher Education - 12-84

APPENDIX A

December 13, 1984

To: Interested Parties

From: Derek C. Bok
President
Harvard University

William G. Bowen
President
Princeton University

Robert M. Rosenzweig
President
Association of American Universities

Subject: Treasury Department's Tax Proposals

It is clear that important national considerations have led the President and others to explore possible revisions of the tax code to increase equity, to promote compliance, to achieve simplification and to encourage economic efficiency. Changes of consequence will entail some measure of sacrifice, and we are prepared to accept our fair share in order to advance important national objectives. But we would be irresponsible if we did not identify early and protest vigorously any proposals that could seriously undermine the quality of the distinctive system of higher education that has evolved in this country over the last 200 years.

It is the capacity of higher education to serve the long-term national interest that we believe deserves the most careful attention. Charitable organizations, including colleges and universities, are eligible for 501(C)(3) status under the tax code because they exist not to serve their own ends, but to serve broad public purposes. Because of this special mission, they are not fairly characterized as "just another special interest." This point was discussed recently by Albert Rees, the President of the Sloan Foundation, when he said:

> "Let me emphasize ... that I do not regard the charitable deduction as simply another special tax privilege. First, it is one of the oldest deductions in the tax code, going back to 1917. Second, it promotes the support of educational, cultural, and welfare activities that would have to be supported by government if there were not private voluntary support for them. The new and expanded government programs that would be needed to replace private philanthropy would probably be less efficient than the private ones they replaced and would certainly be far less diverse. This diversity of voluntary activity is a precious asset of our pluralistic society."

Our principal concerns with the Treasury Department's proposals focus on those provisions that could significantly erode this asset by undermining current incentives for private giving. Our preliminary analysis, based on 1982 giving and income data published by the Treasury Department, suggests that these provisions, if enacted, could be expected to result nationally in:

- a 28% decline in the level of cash giving to charity;
- a 38% decline in gifts of appreciated property; and
- an overall decline of 30% in charitable contributions by itemizers, who currently provide 70% of all individual gifts.

Even assuming an annual economic growth rate over five years of 6.25%, which is more than twice that currently forecast by the Congressional Budget Office and more than 60% higher than the Administration's forecasts, the economic growth resulting from Treasury's proposals could be expected to make up only about one-third of the giving lost as a result of the provisions affecting charitable giving.

Other Proposals

Before discussing these specific provisions we should point out that there are other Treasury proposals that would have significant negative impact on the financial circumstances of colleges and universities. This impact will be especially keenly felt if there are to be, as we expect, further reductions in federal expenditures for higher education. But it is important to acknowledge that these other proposals -- to tax fringe benefits, to tax scholarships, fellowships, and prizes, and to eliminate access to the tax-exempt bond market for educational facilities and student loans -- are fundamentally of a different nature than those that would reduce or remove the incentive to give. While none of us is eager to accept the additional costs that these other proposals would impose, we are prepared to examine the case for each on its merits. Several, at least, are quite important, but none, it is fair to say, matches the effect of abandoning the long-established national policy of encouraging voluntary gifts of private resources to institutions serving public purposes.

Dimensions of Giving

The dimensions of private giving under current law are considerable. In 1982-83, for example, total voluntary support for institutions of higher education amounted to $5.1 billion. Gifts directly from individuals represented 47% of the total ($2.4 billion), and gifts from living individuals -- the category of gifts most responsive to changes in tax incentives -- constituted 71% of individual gifts. Traditionally, some 40% of all individual gifts, and a significantly higher percentage of larger gifts, have taken the form of securities, real estate, and other appreciated property.

While gifts to private colleges and universities accounted for the preponderance of total giving to higher education in 1982-83, it is noteworthy that public institutions accounted for fully 31%, a level which grew from the previous year at a rate nearly three times the rate of growth of giving to private institutions. Increasingly the health of all institutions of higher learning -- public as well as private -- depends on their ability to attract private support.

Our experience tells us that a broad-based and generous commitment to higher education can be sustained over time only if the government will continue to encourage such giving in tangible as well as hortatory ways. We both can attest to numerous examples of individuals who have given far more generously than otherwise would have been the case because of provisions currently in the tax code.

Proposals That Would Affect Giving

Three principal proposals in the Treasury report deserve analysis. These proposals would:

- reduce the top marginal tax rate for individuals from 50% to 35%.

- allow the deduction of charitable contributions only to the extent that they exceed 2% of adjusted gross income, with no provision for deduction by non-itemizers.

- restrict the deduction for gifts of appreciated property to the gift's basis adjusted for inflation or its market value, whichever is lower.

(1) Reduction in Marginal Rates

While we certainly do not oppose a reduction in marginal tax rates, it is important to recognize that any such reduction can be expected to reduce charitable giving. At a marginal rate of 70% (the top rate prior to 1982), the net cost to the taxpayer of giving a dollar is 30 cents. At a 50% rate (the current maximum), the cost increases to 50 cents. A further reduction in the top marginal rate to 35% would increase the cost of giving a dollar to 65 cents, an increase of 30% over the current cost for taxpayers at the top marginal rate.

Most economists would agree that charitable giving is highly responsive to its net cost, and that a 10% rise in net cost can be expected to cause at least a 10% drop in charitable contributions. Moreover, it appears that donors in upper income groups, the groups that are most likely to contribute to colleges and universities, are even more sensitive to changes in the net cost of giving than others. According to Treasury Department figures, the lowering of the top bracket rates between 1981 and 1982 resulted in decreases in charitable contributions of 23% overall in the highest income brackets, and of up to 33% in some brackets. Our preliminary analyses suggest that the rates proposed by Treasury would further reduce giving by middle and upper middle income itemizers by about 20%, and would reduce giving by upper income taxpayers by more than 30%, even without correcting for the negative effect of disallowing any deduction until gifts exceed 2% of adjusted gross income.

(2) Limiting the Charitable Deduction

Institutions of higher education depend on contributions from donors at all income levels and in varying amounts. In many cases, those who eventually become major donors first acquired the habit of giving through making more modest contributions when just beginning their careers. The Treasury proposals would remove the tax incentives for donors of smaller amounts by significantly reducing the number of taxpayers likely to itemize (by increasing the zero bracket amount and by eliminating certain deductions); by rescinding the "above-the-line" deduction of charitable gifts by non-itemizers; and by permitting itemizers to deduct only that portion of their charitable contributions that exceeds 2% of adjusted gross income. (Since the definition of income is expanded under Treasury's proposals, the dollar amount of this floor may end up being higher than the individual taxpayer might expect.)

Treasury estimates that roughly half of all current itemizers contribute less than 2% of adjusted gross income. Since these taxpayers would not be able to deduct their gifts, the Treasury proposals would cost them a dollar to give a dollar -- a significant increase in their cost of giving, resulting in a significant loss of incentive to give. Donors above the 2% floor would also be disadvantaged by having to pay tax on the first 2% of their income that they contribute to charity.

We are concerned that the concept of a floor and the elimination of above-the-line deductibility will suggest to the public that charitable activity is something that can be left to the wealthy. We also believe that these proposals would tax dollars that should not be taxed: dollars that are neither consumed nor saved by the donor, but instead are voluntarily given up so that they can serve public purposes. Finally, we worry about the longer term consequences for the society of any proposals such as these that would reduce so significantly both the number of donors and the amounts contributed for charitable purposes.

(3) Deductibility of Appreciated Property

The most damaging proposal for colleges and universities is the one that would limit the deduction for appreciated property to the lesser of the current market value or the indexed basis of the property. As indicated earlier, historically some 40% of all individual gifts to colleges and universities are in the form of appreciated property, including more than 60% of gifts for capital purposes. Economic studies have shown that eliminating or substantially reducing the full deductibility of gifts of appreciated property could be expected to result in a loss to charities of approximately $1.30 ($1.33 is the more precise estimate) for each new dollar that the government would receive in tax revenue. Thus the appreciated property deduction in current law has been extremely effective in encouraging the commitment of private resources to public purposes. Under Treasury's proposals it seems likely that many dollars that otherwise would be devoted to charitable purposes would instead remain in private hands.

The attached analyses of Treasury's proposals suggest that they would nearly double the cost to the taxpayer of giving appreciated property. In fact, the impact could be even greater because of reductions in liquidity. The consequences for institutions dependent on contributions of appreciated property could be devastating, and we have been able to discover little prospect for offsetting these substantial losses in other ways.

The attached analyses also raise questions about Treasury's proposal to remove the current ceilings on charitable deductions, and to eliminate the important carryover provision in current law.

Finally, they demonstrate that even the most optimistic projected economic growth rate resulting from the Treasury proposals would only compensate for approximately one-third of the drastic fall-off in giving that can be anticipated.

APPENDIX B

December 3, 1984

Impact of the Treasury Tax Reform Proposal on Charitable Giving to Universities

---

The Treasury proposal for tax reform will have a profound effect on charitable giving in general and giving to the university community in particular. This memorandum outlines the relevant changes and discusses their likely effects by describing the impact of the proposals on "typical" taxpayer situations. It must be stressed, however, that the figures presented below should not be taken as a substitute for formal revenue estimates done by computer simulation. The figures provided below are simply indications of the magnitude of changes to be expected from individual taxpayers in particular situations. The six proposed changes with the most impact on the charitable community discussed below are:

- Reduction in marginal tax rates
- Changes in the tax treatment of capital gains and gifts of appreciated property
- An increase in the zero bracket amount and reduction of allowable deductions
- The elimination of the "above the line" deduction for non-itemizers
- Removal of the ceiling on deductibility of charitable gifts of 50 percent of AGI

Although each of these proposals (including the last) would have a negative effect on current charitable giving, overall tax reform is likely to receive broad support if it achieves tax simplification and economic efficiency. Appropriate modifications may be necessary to minimize the negative effects of reform on higher education.

Reduction in Marginal Tax Rates

Economists argue that tax rates have an impact on charitable giving by affecting the net-of-tax price of contributing. For example, a taxpayer in the 50 percent tax bracket faces a net-of-tax price of giving a dollar of cash to charity of 50 cents: the dollar contributed less the reduction in tax liability of 50 cents. A cut in the tax rate to 35 percent would raise the price of giving a dollar to 65 cents. That represents a 30 percent rise in the price of giving for this taxpayer.

Many economic studies have been done to measure the sensitivity of charitable giving to its price -- what economists term the price elasticity. While precise estimates vary, a reasonable consensus figure would be that charitable giving falls between 1.2 and 1.3 percent for every 1 percent rise in its price. Thus, the 30 percent price increase described above implies a decline in giving by that taxpayer of between 36 and 39 percent.

For most taxpayers, the decline in tax rates and the corresponding increase in the price of giving are not as great as that described above. The table below presents estimates of the price of cash giving for a four person family under current law and the Treasury proposal. In each case, the giver is assumed to be an itemizer who makes only gifts of cash. An estimate of the effect of the tax law change on the implied level of cash giving is also presented. Only the effect of the tax rate reductions on price and level of giving is included.

Effect of Treasury Proposal on Price and Level of Cash Giving
(percent)

Income of Taxpayer	Current Tax Rate	Proposed Tax Rate	Estimated Change in Giving
$30,000	22	15	-10
$40,000	28	15	-18
$50,000	33	25	-13
$75,000	38	25	-20
$100,000	42	35	-13
$200,000	49	35	-25

The table makes clear that the effect will not be uniform across income brackets. This is because the percentage change in the price of giving (one minus the tax rate) varies across income classes. It seems reasonable to infer from these numbers that cash giving by middle and upper middle class itemizers will fall by about

20 percent as a result of the rate reductions in the Treasury proposal. Giving of cash by very well-to-do taxpayers will fall substantially more, probably in excess of 30 percent.

Capital Gains and Appreciated Property

The Treasury proposal substantially alters the current treatment of capital gains. The present 60 percent exclusion of gains on property held at least one year is replaced by the indexation of the basis of the property. The taxpayer will then be taxed on the total gain in excess of this indexed basis at his ordinary rate.

This change in the tax treatment of realized gains has also affected the treatment of property contributed to charitable organizations. Currently the taxpayer may deduct the ~~the~~ current market value of the property contributed. He need not pay any tax on the capital gain which has occurred since purchase. Under the Treasury proposal, the taxpayer may deduct only the lesser of the current market value or the indexed basis of the property.

This change will dramatically affect the incentives to give appreciated property to charity. To understand why this is the case, consider the following three cases. In each case the taxpayer is in the 50 percent bracket and has held the property ten years, during which time the price index has doubled.

Case 1: The Successful Closely Held Corporation. The taxpayer started a corporation 10 years ago and issued stock to himself at $10 per share. The corporation has been very successful and has mushroomed in value to $100 per share. Under current law, the capital gains tax would be $18 per share. This is arrived at by applying the taxpayer's tax rate -- 50 percent -- to the portion of the gain which was not excluded. As 60 percent of the $90 gain was excluded, the taxpayer must pay a 50 percent tax on $36 of gain for each share.

If the taxpayer gives this stock to charity, he need not pay the capital gains tax. Furthermore, he is entitled to deduct the current market value of the stock from his income taxes. In the 50 percent bracket, this lowers his tax liability by $50 for every $100 share contributed. The total saving in taxes of giving the dollar to charity is therefore $68. The net cost of giving $100 of stock to charity is $32 -- the market value less the tax savings.

Under the Treasury proposal, the taxpayer is only entitled the lesser of adjusted basis or fair market value. The adjusted basis is $20 as prices have doubled since the time of purchase. He is now in the 35 percent tax bracket under the proposal. He escapes a 35 percent tax on his capital gain of $80 and is allowed to deduct the indexed basis of $20. Thus, his total tax savings is $35. The cost of giving this stock to charity is $65. The price of giving this stock to charity has doubled under the Treasury proposal.

Case 2: The Inflation Hedge. A taxpayer purchased a piece of artwork which kept up exactly in value with inflation. The original purchase price was $10,000; now that prices have doubled, it is worth $20,000. Under current law, the taxpayer would be liable for capital gains tax on the $10,000 of appreciation -- $2,000. By giving the artwork to charity, he not only saves this $2,000 but also gets a tax deduction worth $10,000 -- 50 percent of the current fair market value of the artwork. The current tax saving from giving this to charity would be $12,000. The net cost of the gift would be $8,000.

Under the current Treasury proposal, there would be no capital gains tax on the asset as the indexed basis rose to $20,000 along with the rise in the price of the asset. He is entitled to a deduction worth $7,000 -- 35 percent of the value of the asset. The proposed cost of this gift would rise to $13,000 -- 62.5 percent.

Case 3: The Stock that Couldn't Keep Up. A taxpayer purchased 1,000 shares of a large industrial company for $80 per share. Although the stock has risen in value to $100 per share in the last 10 years, this price increase was not as great as inflation. Under current law, the taxpayer had a capital gain of $20,000 on which $4,000 of capital gains is due. By giving the stock to charity, the taxpayer saved this tax and also got a deduction worth $50,000 -- 50 percent of the current market value of the stock. The net cost of giving the stock to charity is $46,000 -- $100,000 less the $54,000 tax savings.

Under the Treasury proposal, no capital gains tax is due because the indexed basis is $160 per share, more than the current value. In fact, the taxpayer has suffered a real capital loss of $60,000 according to the Treasury plan which may offset real gains of that amount. Realizing the loss by selling it would be worth $21,000 to the taxpayer, in a sense a negative tax of $21,000. Giving the stock to charity would bring a deduction worth only $35,000 -- 35 percent of the current value of the stock. The net tax gain by giving the stock to charity is only $14,000 — $35,000 saved less the $21,000 foregone savings. The cost of giving the stock to charity is $86,000 -- 86 percent more than under current law.

These cases make clear that the incentive for giving appreciated property to charitable organizations will be substantially reduced under the Treasury proposal. Under current law, appreciated property has greater incentive to be given than does cash. Under this proposal, the incentive to give is never higher than in the case of cash and may well be less.

Consider, for example, Case 3. The gift of $100,000 in cash would cost only $65,000, but in this case the gift of stock worth $100,000 would cost $86,000. The tax reduction from giving stock in this case is only 40 percent of the tax reduction from an equally sized cash gift. Perversely, the taxpayer would be better off selling the stock and giving the $100,000 to charity in cash. He would receive the capital loss worth $21,000 and a tax deduction worth $35,000 as well.

The gift of highly appreciated stock, as in Case 1, is probably not even as good under the Treasury proposal as it sounds. Under current law, the effective tax on gains in situations like this is very low, and therefore the "lock-in" effect, the incentive for the taxpayer to just hold onto the stock, is also low. Under the Treasury proposal, the "lock-in" effect rises dramatically as the cost of disposing of the asset — either by sale or gift — rises. Thus, even though the gift of highly appreciated assets receives no worse an incentive than a gift of cash of the same current value, the chances that gifts of either stock or cash will be given by such taxpayers is reduced because the lock-in effect makes such taxpayers less liquid.

Thus, not only is the normal effect of a price increase going to be felt, but an additional loss is likely due to the reduced liquidity of entrepreneurs, art collectors, and artists. Institutions which depend heavily on these kinds of donors will suffer accordingly.

Two Percent of AGI Floor

Under the Treasury proposal, taxpayers would be allowed to deduct only that portion of their charitable contributions that exceeded 2 percent of their Adjusted Gross Income. Floors necessarily divide taxpayers into two groups: those above and those below, with substantially different effects on both groups.

Those below the floor face the loss of their entire tax incentive to make charitable contributions. These taxpayers were facing a price of giving of one minus their marginal tax rate (see table presented earlier) but now face a price of giving of one dollar. The Treasury estimates that roughly one half of all current itemizers contribute less than two percent of AGI. Thus, roughly half of all itemizers will see a price increase in addition to that resulting from the marginal rate reduction. However, those with relatively low contribution amounts make much less than half of all contributions -- about 20 percent. Thus, the effect on the total level of giving is likely to be relatively small.

Those above the floor do not suffer any effect on the price of contributing another dollar to charity. Economists consider this decision "at the margin" the crucial determinant of giving. Once a taxpayer is above the floor, the full marginal value of the tax incentive is in place.

However, these taxpayers above the floor level do suffer an "income effect." They are being asked to pay a tax on an additional amount of their income equal to the value of the floor -- in this case tax on an additional 2 percent of their income. In the case of a taxpayer making $100,000, the additional tax is $700 -- 35 percent of $2,000, or only 0.7 percent of his income. That $700 reduction in purchasing power is spread around all of the commodities the taxpayer purchases including charitable giving. Although some commodities are likely to suffer more than others, economic studies suggest that the percent decline in charitable giving will roughly equal the percent decline in income. In this case, the decline will be about 0.7 percent. If that taxpayer was giving $5,000 before, the decline will amount to about $35. In general, the effect of a floor on taxpayers giving more than the floor amount will be very small.

One other aspect of floors deserves consideration. Taxpayers might "game" the floor by bunching their deductions in certain years. For example, if a taxpayer currently gave 2 percent of his AGI every year to charity, he might instead give 4 percent every other year. This would convert a situation where there was no tax savings into one in which half of his contributions would receive a tax deduction.

There is of course a limit to this behavior. It does not seem plausible that the taxpayer would explain to the seller of girl scout cookies or little league decals that this was not his year to give but that he would be sure to give twice as much next year. Some projections of this behavior have been done which concluded that it is unlikely to produce a big change in either giving or tax revenue. However, development officers should be aware that there are big potential savings for taxpayers who currently make large, regular contributions.

Increased Zero Bracket and Fewer Allowable Deductions

The Treasury contemplates raising the threshold for itemizing (known as the zero bracket amount) from $3,400 to $3,800 for a couple filing a joint return. Similar increases are also proposed for other filing groups. In addition, the Treasury will end deductibility for state and local taxes and interest paid in excess of $5,000 on items other than the principal residence. Deductions will really be limited to housing mortgage interest, charitable deductions in excess of 2 percent AGI, medical deductions over 5 percent of AGI and casualty and theft deductions over 10 percent of AGI.

The net effect of these changes will be a substantial reduction in the number of taxpayers who claim itemizer status. Currently about one third of all taxpayers, and over half of all joint filers itemize their deductions and therefore receive an incentive to make charitable contributions. It can be reasonably estimated that this fraction will drop by half under the Treasury proposal.

In 1982, itemized deductions averaged about $8,500 per itemizer. Eliminating the deduction for state and local taxes will cause this to drop by over $2,600 to $5,900. The ceiling on non-mortgage interest and the floor on charitable contributions will each cause the average itemized deduction to drop about $360, leaving an average of only about $5,100 per return. With the zero bracket increase to $3,800, we will have gone from a situation where the average level of deductions was 150 percent above the zero bracket amount to where it would be only 34 percent above for the current itemizing population. This has got to mean that a substantial number of taxpayers will cease to itemize.

The effect of this reduction on itemizers will be the same as the floor on giving. Taxpayers pushed below the itemizing floor (the zero bracket amount) will lose all tax incentives to make charitable contributions. Those above will suffer an "income effect." Note that this impact has nothing explicit to do with charitable contributions. It is an inherent part of the effort to broaden the tax base by eliminating items which now receive favorable tax treatment other than charitable giving.

Elimination of the "Above the Line" Deduction

The 1981 tax act initiated a partial deduction for charitable contributions for persons not itemizing their deductions. The Treasury proposes to eliminate this provision. The evidence to date -- from 1982 tax returns -- suggests that this provision was an ineffective means of encouraging charitable contributions.

In 1982, only 19.3 million non-itemizers out of a total non-itemizing population of 62 million took advantage of this provision. Thus, roughly 70 percent of non-itemizers took no tax relief from this provision. (This may be because the provision was new and people were not familiar with it.) Of those who took the deduction, over 70 percent claimed the maximum amount deductible. This implies that the provision provided no increase in the incentives to contribute at the margin for the vast marjority of those taking the provision. Instead, the provision represented a major drain on the Treasury which provided only an income effect, but no price effect, for non-itemizing taxpayers.

As the provision becomes more widely known and as the contribution ceiling is removed, the budgetary efficiency of this provision will increase. It has been estimated that if there were no floor or ceiling on this provision, the budgetary efficiency would be about 1.1; that is, charities would gain $1.10 for every $1 lost to the Treasury. Existing estimates for the dollar amounts involved were about $3 billion for 1977. However, the current ceiling on this provision greatly reduces its budgetary efficiency, as noted above.

Elimination of the Ceiling on Deductibility of Charitable Giving

Currently, taxpayers may deduct gifts of cash to charitable organizations only to the extent of 50 percent of their AGI. Gifts of appreciated property are limited to 30 percent of AGI. The Treasury proposal would eliminate these ceilings. The Treasury argues that "by repealing the limits on the deductible charitable contributions, the Treasury proposal will benefit those who contribute all or most of their income to charity" (Tax Reform for Fairness, Simplicity, and Economic Growth, Vol. 1, p. 82).

This is a disingenuous statement. Under current law, taxpayers may carry forward unused charitable deductions to later tax years. By eliminating the ceiling and the carryforward, the Treasury is eliminating or reducing tax benefits for a substantial portion of these gifts.

To understand why this is so, consider a taypayer with a stream of income of $200,000 per year. He is clearly in the 50 percent tax bracket on most of his earnings. He makes a $500,000 contribution. He is limited currently to a deduction of $100,000 a year in each of the next 5 years. Each $100,000 deduction is worth $50,000 to him (because of his tax bracket). The only loss from the ceiling is lost interest on that portion of his tax deduction which is deferred.

Under the Treasury proposal, the taxpayer will deduct the full $500,000 in the year he makes the gift. The first $100,000 will come off out of the 50 percent tax bracket. The next $100,000 will come off against income which was in something less than the 50 percent bracket (for example, some is in the 30 percent bracket, some in the 20, until he gets down to zero taxable income). The remaining $300,000 will receive no tax benefit at all because his taxable income will be below zero. The total value of this contribution from a tax reduction point of view will be roughly $80,000 versus roughly $200,000 under current law. The proposal clearly does not "benefit those who contribute all or most of their income to charity."

Tax data suggest that most of the effect of this provision is on well-to-do individual taxpayers. In 1982, $2.7 billion of charitable contributions were not deductible that year due to the deduction limitations. Of that, $1.4 billion was given by taxpayers with more than $100,000 of AGI and a further $1.1 billion was given by taxpayers with between $40,000 and $100,000 AGI. Thus, it is very large gifts which will be most affected by this provision since a taxpayer earning $100,000 only confronts the ceiling if he gives at least $200,000. In fact, an astronomical 785 taxpayers with AGIs over $500,000 faced this ceiling -- 3 percent of all taxpayers in this group.

While cash gifts may avoid this problem by being spread over a number of years, this may not be an option for appreciated property. For example, one could not give one fifth of an "old master" painting in each of 5 years. Thus, institutions which receive large amounts of non-dividable appreciated property (including land) would find the proposed Treasury change burdensome.

Conclusion

The Treasury proposal is clearly bad from the point of view of the charitable community. There is no doubt that the enactment of the Treasury package would simplify the tax system. However, as the proposal now stands, the loss to charities from the six provisions mentioned above is certain to outweigh any foreseeable benefits from an improved economic picture.

APPENDIX C

A COMPARISON OF THE COSTS AND POTENTIAL ECONOMIC BENEFITS OF THE TREASURY PROPOSAL ON CHARITABLE GIVING

December 11, 1984

EXECUTIVE SUMMARY

The Treasury proposal for tax reform will have an adverse direct impact on charitable giving. However, it will also produce a more efficient tax system, thereby facilitating economic growth and providing indirect benefits to all elements of society. This memorandum evaluates the likely net effect of the Treasury proposal on charitable institutions. The analysis is based on 1982 income and giving data published by the Treasury Department.

The numerous parts of the Treasury proposal which affect charitable giving can be broken into three groups. First, the reduction in marginal tax rates and changed treatment of appreciated property raise the cost of making charitable contributions. Second, provisions which increase the zero bracket amount, reduce the list of allowable deductions, and impose a floor on charitable giving of 2 percent of adjusted gross income (AGI) all tend to reduce the number of taxpayers eligible for any reduction in the cost of giving. Third, the removal of the carryforward provision for major contributors increases the cost of making sizeable charitable contributions.

The reduction in marginal tax rates will increase the cost of making charitable contributions of cash by differing amounts, depending on the taxpayer's current tax bracket. Conservative estimates of the effect of these changes indicate that itemizers earning under $30,000 will give about 10 percent less, those between $30,000 and $200,000 will give about 15 percent less, and those making over $200,000 will give about 25 percent less. The effect on the contribution of appreciated property will be even more dramatic. The likely reduction in contributions of this type will range from 15 percent for relatively low income taxpayers to over 40 percent for very high income taxpayers. On average, the rate reductions alone will produce about a 14 percent reduction in gifts of cash, about a 30 percent reduction in gifts of appreciated property, and an overall decline in giving of about 16 percent -- even before other changes are taken into account.

The changes in the rules for itemizing deductions will substantially simplify the tax form for millions of taxpayers. However, they will also remove the tax incentive to make charitable contributions for these same taxpayers. Approximately 75 percent of taxpayers earning over $40,000 will cease to itemize while roughly 50 percent of those earning over $40,000 will also elect the new standard deduction. The effect of the loss of itemizing status increases the cost of giving more than just the rate reductions, and therefore causes a more substantial decline in giving by those taxpayers affected.

The floor on charitable giving of 2 percent of AGI will eliminate about 60 percent of current itemizers from declaring their charitable contributions. These taxpayers make about 20 percent of the total contributions of itemizers. We could expect giving by these taxpayers to drop by roughly 38 percent as a result of the loss of itemizer status.

The combined effect of all the provisions would mean a 28 percent decline in the level of cash giving which otherwise would occur, and a nearly 38 percent decline in the giving of appreciated property. The overall decline in charitable contributions by current itemizers would be about 30 percent.

In contrast, the maximum plausible rate of growth one might expect is a bit over 6 percent per year for a period of 5 years. Such a rate of growth is more than twice that currently forecast by the Congressional Budget Office and more than 60 percent higher than that forecast by the Administration. We could expect such rapid economic growth to make up about one third of the giving lost due to the direct effects of the tax bill by 1989. The rate of growth assumed is the maximum plausible rate, and is currently not being forecast by anyone. Therefore, the conclusion is inescapable: rapid economic growth will not make up the tremendous disincentives for the charitable communtity contained in the Treasury tax proposal.

December 11, 1984

A COMPARISON OF THE COSTS AND POTENTIAL ECONOMIC BENEFITS OF THE TREASURY PROPOSAL ON CHARITABLE GIVING

The Treasury proposal for tax reform will have a direct adverse impact on charitable giving. A detailed evaluation of the various components of that proposal was contained in an earlier memorandum. However, as also noted in that memorandum, the Treasury proposal will improve the overall efficiency of the tax system, thereby providing indirect benefits to all elements of society. A crucial question therefore, is whether or not the potential benefits are likely to outweigh the direct costs to the charitable community. The objective of this memorandum is to evaluate the likelihood that the net effect of the Treasury proposal will be positive for the charitable community.

In order to accomplish this evaluation, a three step procedure is required. First, a quantitative estimate of the effect of the Treasury proposal on charitable giving is needed. The estimates presented below are not the result of a formal computer simulation, but rather conservative calculations about the likely impact of the proposal. They should therefore be taken as the lower bound of the adverse direct effect of the proposal. Second, a "best case" estimate of the effect of the tax proposal on the economy is made. This is done by taking the best five year rate of growth on record and increasing it almost 20 percent. The effect of economic growth on charitable contributions is estimated, and then applied to the "best case" scenario. The effect of this procedure is to maximize the indirect economic benefits of the tax bill on charitable giving. Third, the adverse direct effects are compared with the potential indirect benefits to test the plausibility of the claim that charitable organizations in general, and universities in particular, will benefit. It should be noted that the procedure followed here is designed to be as optimistic as possible. Thus, a conclusion that charities will be net losers should be interpreted that they will be net losers even under the most favorable assumptions.

1. Estimates of the Direct Effect of the Proposal on Charitable Giving

The Treasury Proposal contains six changes which directly impact on the charitable community:

- Reduction in mariginal rates;
- Changes in the tax treatment of capital gains and gifts of appreciated property;
- Increase in the zero bracket amount and reduction of allowable deductions;
- A 2 percent of AGI floor on deductibility of charitable contributions;
- The elimination of the "above the line" deduction for non-itemizers;

- Removal of the ceiling on deductibility of charitable gifts of 50 percent of AGI.

The first two of these changes affect charitable contributions by raising the net-of-tax price of giving facing those who receive some tax reduction from making a contribution. The next three changes alter the number of taxpapers eligibile for some tax reduction due to their contributions. The final provision affects extremely large donors and will be evaluated separately. Therefore, the analysis of the direct effect of the Treasury proposal is best done in three parts: its effect on the price of giving, on the number of eligible taxpapers, and on very large contributors.

Effect on Price. The price of charitable contributions of cash is one minus the taxpayer's marginal tax rate. The Treasury proposal alters the tax rate facing different taxpapers by different amounts. Thus, the effect on giving will differ across income brackets. The following table, reproduced from the December 3 memorandum, shows the likely effect on gifts of cash by typical taxpapers at different income levels.

TABLE 1
Effect of Treasury Proposal on Price and Level of Cash Giving
(percent)

Income of Taxpaper	Current Tax Rate	Proposed Tax Rate	Estimated Change in Giving
$30,000	22	15	-10
$40,000	28	15	-18
$50,000	33	25	-13
$75,000	38	25	-20
$100,000	42	35	-13
$200,000	49	35	-25

A formal computer simulation would provide the precise changes in tax rates and giving for all taxpayers. However, the estimates presented below, assume a 10 percent reduction for taxpayers earning under $30,000, a 15 percent reduction for those earning between $30,000 and $200,000 and a 25 percent reduction for taxpayers earning more than $200,000. The price elasticity of charitable giving is assumed to be -1.2, toward the lower end of the estimates found in academic studies.

A substantial portion of charitable contributions is made in the form of gifts of appreciated property. For example, in 1982, 14 percent of all gifts and 42 percent of gifts by taxpayers making more than $200,000 were in this form. The December 3 memorandum noted that the effect of the Treasury proposal on this form of giving was more dramatic and also more variable than was the effect on cash giving. Although the percent change in the price of giving was greater for appreciated property than for cash, the precise change depended greatly on the asset which was being contributed. Table 2 presents the share of contributions made in the form of property by income class, the price of giving under current law and a range of prices of giving under the Treasury proposal, and a resulting range of percent changes in giving. In each case the fair market value of the asset is assumed to be twice its nominal basis -- a common asumption in the analysis of charitable giving. However, the indexed basis of the property is assumed to range from half to one and a half times current market value.

Table 2
Effect of Treasury Proposal on Price and Level of Gifts of Appreciated Property

Taxpayer Income	Asset Giving as Share of Current Giving	Current Price	Proposed Price Range	Effect on Giving
$30,000	8%	.74	.85-.925	-15% to -24%
$40,000	9%	.66	.85-.925	-26% to -33%
$50,000	11%	.60	.75-.875	-23% to -36%
$75,000	14%	.54	.75-.875	-33% to -44%
$100,000	18%	.50	.65-.825	-27% to -45%
$200,000	28%	.41	.65-.825	-42% to -57%
over $200,000	42%	.40	.65-.825	-44% to -58%

In some instances, the taxpaper is better off selling his appreciated property and making a cash gift than giving the appreciated property to charity. This approach to giving would cost both the Treasury and the charity money relative to current law. In order to err on the side of caution, the lower bound of the effect on giving has been used to estimate the effect of the proposal. Table 3 combines the effect of the proposed changes in the price of giving on the level of giving by taxpapers of all income groups who would itemize under the Treasury proposal. In each case a conservative estimate of the percent change in giving was used. The percent change by income class was multiplied by the share of giving done by that income class. A weighted average percent change was thereby calculated for both cash gifts and gifts of property. The result implies a 14.1 percent decline of gifts of cash and a 30.4 percent decline of gifts of property. Since property comprised 14 percent of all gifts in 1982, the weighted average decline in total giving is 16.4%

Table 3
Estimated Effect of Proposed Tax Rates on Giving

	Gifts of Cash		Gifts of Property	
	Percent of Gifts	Percent Change	Percent of Gifts	Percent Change
Income Class				
under $30,000	33%	-10%	19%	-15%
$30,000-$50,000	35%	-15%	20%	-25%
$50,000-$100,000	18%	-15%	17%	-30%
$100,000-$200,000	7%	-15%	11%	-30%
over $200,000	7%	-25%	33%	-43%
weighted average	100%	-14.1%	100%	-30.4%

Percent change in total giving: -16.4%

Table 3 provides an estimate of the effect of the increase in price on charitable giving assuming current itemizers remain that way. However, the Treasury proposal will also substantially reduce the number of taxpayers eligible to itemize charitable contributions. This memorandum therefore turns to that issue.

Effect on Number of Eligible Taxpapers. The Treasury proposal will substantially reduce the number of taxpayers eligible for tax relief due to charitable contributions. The change in the zero bracket amount, reduced list of deductible items, and the 2 percent floor on the charitable deduction will all affect current itemizers. The elimination of the "above-the-line" provision will affect non-itemizers and those current itemizers who do not itemize after the proposal comes into effect.

Currently, itemizers give over two-thirds of all charitable contributions, although they make up only about one third of all taxpayers. In part, this is because itemizers are, on average, in higher income brackets than non-itemizers and because the reduced price of giving for itemizers causes them to give more than non-itemizers in the same income class. For example, a taxpayer in the 30 percent tax bracket can be expected to give about 50 percent more as an itemizer than as a non-itemizer.

Converting a current itemizer into a non-itemizer substantially raises the price of charitable giving as it raises the price of giving from one minus his tax rate up to one. Table 4 presents the percentage change in the level of cash giving by making an itemizer into a non-itemizer. Figures are presented for both current law and the Treasury proposal. As the tax rates are lower under the Treasury proposal, the percent price increases and corresponding decline in giving are smaller.

Table 4
Effect of Ending Itemizer Status on the Level of Giving

Income	Percent Change from Current Law	Percent Change under Proposed Rates
$30,000	-26%	-18%
$40,000	-33%	-18%
$50,000	-38%	-29%
$75,000	-44%	-29%
$100,000	-48%	-40%
$200,000	-55%	-40%

The proposed 2 percent floor will make all taxpayers with charitable contributions of less than 2 percent of AGI effectively non-itemizers from the view of the charitable deduction. Simulations performed using 1979 data suggest that roughly 60 percent of all itemizers had charitable contributions below the floor. Thus, 60 percent of all current itemizers would receive no incentive for charitable contributions under the Treasury proposal. A significant number of itemizers in all income classes would be adversely affected with particular effect on taxpayers earning between $20,000 and $50,000.

Although taxpayers giving less than 2 percent of AGI comprise a majority of current itemizers, they make only about 20 percent of all contributions. Thus, the adverse effect of the floor will only be felt by a small percentage of total contributions.

The median dollar contributed by itemizers was by a taxpayer in the 33 percent tax bracket in 1982. Using the analysis presented earlier, this implies a 38 percent decline in contributions by taxpayers before the floor. A 7.6 percent decline in total contributions by itemizers will result from the imposition of the floor as the 20 percent of giving which is affected will fall by 38 percent. As argued in the earlier memorandum, the effect of the floor on contributions by taxpayers over the floor will be relatively small.

The number of itemizers, and the amount they give, is dependent upon the rules for qualifying for itemizer status. To be an itemizer, a taxpaper must have total deductions at least equal to the zero-bracket amount or standard deduction. Needless to say, increasing this threshold decreases the number of eligible taxpayers. Furthermore, reducing the number of deductions which taxpayers may claim, as the Treasury proposal contemplates, will also reduce the number of itemizing taxpayers.

Table 5 gives an historical overview of the effect of changing the zero bracket amount on the share of taxpayers who itemize and on their level of giving. Between 1972 and 1977, the itemizing threshold was gradually increased. The effect on the proportion of taxpayers who itemized and on their share of giving was dramatic. Itemizers fell from one-third to one quarter of the taxpaying population while their proportion of giving fell 13 percentage points. On the other hand, between 1977 and 1982, the standard deduction stayed relatively constant (except for a small increase in 1979) while rapid inflation rapidly reduced its real value. The result was a dramatic reversal in the share of the population which itemized and in the percent of gifts which received favorable tax treatment. Because only itemizers receive a reduction in the net-of-tax price of giving, changes in the number of these itemizers due to changes in the itemizing rules, will have an effect on the level of giving.

Table 5

Itemizers and their Giving as a Percent of Total

Year	Percent of Taxpayers who Itemize	Giving by Itemizers as a Percent of Total Personal Giving
1972	33.2	72.6
1973	32.8	68.0
1974	33.4	66.5
1975	30.0	63.5
1976	28.9	63.2
1977	24.9	59.0
1978	26.7	60.1
1979	26.5	61.0
1980	28.3	64.9
1981	30.4	69.1
1982	32.0	69.1

Thus, an additional reduction in the number of itemizers will result from the proposed increase in the zero bracket amount and reduction in the number of permitted deductions. Under the Treasury proposal, the zero bracket will increase from $3400 to $3800 for married taxpayers, the deduction for state and local taxes will be eliminated, the 2 percent floor imposed, and the interest deduction reduced. A formal computer simulation would be needed to estimate precisely the effect of these changes on the number of itemizers. However, a reasonable estimate of this effect can be computed by measuring the percent of excess itemized deductions which will be eliminated under the Treasury proposal. Table 6 performs this calculation.

Table 6

Share of Excess Deductions Eliminated by Treasury Proposals

AGI (000)	Increased Zero Bracket	No Taxes Paid Deduction	Charitable Floor	Total
0-5	11%	31%	4%	46%
5-10	14%	33%	6%	53%
10-15	16%	46%	9%	71%
15-20	15%	54%	10%	79%
20-25	13%	54%	10%	77%
25-30	11%	57%	10%	78%
30-40	9%	57%	10%	76%
40-50	6%	50%	9%	65%
50-75	4%	46%	8%	58%
75-100	3%	43%	7%	53%
100-200	2%	38%	8%	48%
200-500	1%	37%	9%	47%
500-1000	*	34%	9%	43%
over 1000	*	32%	10%	42%

The distribution of itemized deductions approximates a log normal distribution. Therefore, for mathematical reasons, the figures in column 4 comprise a conservative estimate of the fraction of current itemizers who will no longer itemize under the Treasury proposal. It should be noted that the charitable floor will even have an effect on the itemizing prospects of taxpayers who contribute in excess of the floor. Their total itemized deductions will still be reduced by 2 percent of AGI. Thus, even if contributions exceed the floor, it is possible that the floor will change itemizers into non-itemizers by reducing their total deductions below the zero bracket amount threshold.

The impact of the change in the rules for itemizers will be dramatic. Three quarters of taxpayers earning under $40,000 and half of all other taxpayers will cease to be itemizers. Therefore, of the 40 percent of current itemizers who exceed the prospective 2 percent contributions threshold, the vast majority will lose their itemizer status and consequent tax-treatment of deductions indirectly.

Except for very high income taxpayers, many of the taxpayers eliminated may be substantial contributors. Consider for example a taxpayer earning $80,000 who gives $4000 - 5 percent of his income - to his alma mater. Otherwise, he is roughly typical for his income class: $6,000 in state income taxes, $2000 in property taxes on his home, and $1400 in interest left of the $40,000 mortgage he took out 10 years ago at 7%. Currently his itemized deductions are $13,400, $10,000 more than the zero bracket amount. Under the Treasury proposal, he would lose his deductions for taxes paid and the first $1600 of his charitable contribution. He would be left with $3800 in deductions -- exactly equal to the zero bracket amount.

Currently, about two thirds of all gifts by itemizers are made by taxpayers earning less than $50,000. Earlier estimates suggest that 60 percent of these taxpayers and 20 percent of the giving will be eliminated by the 2 percent floor. These estimates suggest that 70 percent of the remaining 40 percent of taxpayers -- giving at least half of all the remaining contributions -- will be eliminated. Thus, 88 percent of all itemizers and 60 percent of giving by itemizers earning below $50,000, will receive no tax incentive.

Among taxpayers earning over $50,000, roughly 60 percent, making 20 percent of the contributions, would be eliminated by the 2 percent floor. Of the remainder, roughly half, making at least one third of the remaining contributions would be eliminated by the changed itemizer rules. Thus 70 percent of all itemizers making over $50,000 and roughly half of their giving would receive no favorable tax treatment under the Treasury rules.

Itemizers earning under $50,000 have a median marginal tax rate of roughly 25 percent. Using the price elasticity of -1.2 discussed earlier, these taxpayers losing their deduction status would produce a giving decline of 29 percent. Since their contributions were 60 percent of giving by this group, a 17 percent decline in total giving by the group would result just from changed itemizer status.

Itemizers earning over $50,000 have a median marginal tax rate of roughly 45 percent. Those who lose deductibility of their itemizer status would see their giving decline by over 50 percent. Since they comprise nearly half the giving of this group, we could expect a 25 percent decline in total giving by taxpayers earning over $50,000 just from the change in itemizer status.

Eliminating the Ceiling on Deductibility. One final proposal of the Treasury warrants consideration: the removal of the 50 percent limit on deductibility. As the December 3 memorandum noted, this is bad for the charitable sector because it eliminates all incentive for large contributions. The adverse impact on giving by upper income donors could be enormous. Table

7 presents the percent of giving in each income class in 1982 which was carried forward to later years by the percent limitation.

Table 7

Percent of Giving Carried Forward by Income Class

Income Class	Percent Exceeding Giving Floor
under $30,000	2%
$ 30,000-$ 50,000	6%
$ 50,000-$100,000	8%
$100,000-$200,000	21%
$200,000-$500,000	25%
$500,000-$1,000,000	21%
over $1,000,000	24%

It is difficult to estimate the effect of the removal of the carry forward on this giving. However, two points are clear. First, the increased price of giving caused by the elimination of the carry forward could only serve to reduce giving. Second, the decline will be in addition to the declines described above. Clearly, any taxpayer giving more than 50 percent of AGI to charity will exceed both the 2 percent floor and the zero bracket amount. This memorandum shall assume that half of the giving over 50 percent of AGI will disappear as a result of the removal of the carry forward.

Table 8 consolidated the three effects on charitable giving discussed so far: first, the effect of increased prices for itemizers, second, the effect of reduced numbers of qualifying taxpayers, and third the effect of the removal of the ceiling on giving and the corresponding removal of the carry forward. Five income classes were considered: under $30,000, $30,000 to $50,000, $50,000 to $100,000, $100,000 to $200,000, and over $200,000. Giving was broken down into two types: cash giving and property giving. Each type was then allocated among the income groups according to its share of that type of giving in 1982. Thus, for example, 33 percent of the cash giving in 1982 was ascribed to itemizers earning under $30,000.

Then, each income group was divided into two groups: those who exeed the floor on charitable giving and those below the floor. The giving of each group was allocated according to the atios discussed thus far in the text. It was assumed that property giving was primarily ascribable to big givers -- taxpayers who were likely to exceed the floor. Thus, the effect of removing taxpayers from itemizer status was entirely allocated among cash givers. Similarly, the effect of ending the carry forward provisions for large givers was entirely allocated among givers of property.

Finally, the percent decline in giving in each of 15 taxpayer situations was calculated using the numbers described thus far in the text. Cash givers making under $30,000 saw a 10% decline if over the floor, a 29% decline if under the floor. The percent declines for each type of taxpayer in each income category are listed in Table 8. The percent decline is applied to the percent of giving by each type of taxpayer in each income category. The results are then summed to get an overall decline in giving. The result of these calculations is that cash giving by current itemizers will decline 28% under the Treasury proposal and gifts of property will decline nearly 38 percent.

Table 8
Consolidated Effect of Treasury Proposal

Cash Giving

AGI Class	% of Giving	Over Floor		Under Floor	
		Percent	% Decline	Percent	% Decline
under $30,000	33%	35%	10%	65%	29%
$30,000-$50,000	35%	33%	15%	67%	29%
$50,000-$100,000	18%	43%	15%	57%	50%
$100,000-$200,000	7%	37%	15%	63%	50%
over $200,000	7%	14%	25%	86%	50%

Percent decline cash giving = 28.0%

Asset Giving

AGI Class	% of Giving	Percent Decline		
		from price	from no carry forward	total
under $30,000	19%	15%	1%	16%
$30,000-$50,000	20%	25%	3%	28%
$50,000-$100,000	17%	30%	4%	34%
$100,000-$200,000	11%	30%	10%	40%
over $200,000	33%	45%	12%	57%

Percent decline asset giving = 37.6%

As gifts of appreciated property comprise about 14 percent of total giving, a decline in total giving of nearly 30 percent can be anticipated for taxpayers who currently itemize. Since, these taxpayers give roughly 70 percent of all gifts, a decline of 21 percent in giving by all persons is implied. These are very striking declines in giving.

In order to err on the side of conservatism while projecting the decline in charitable giving due to the Treasury proposal, this memorandum shall assume that gifts by non-itemizers will be completely unaffected. The above the line deduction for charitable contributions is scheduled to expire after 1986. However, it is unlikely that the legislative process will permit this to happen. If one assumes this, a decline in giving by non-itemizers of roughly the same magnitude as that predicted for itemizers is implied. But, because the legislative process is unpredictable, caution suggests assuming that there will be no decline in giving by non-itemizers.

Will this enormous decline in personal giving as a result of the Teasury proposal be recouped due to faster economic growth? The following section estimates the effect of economic growth on charitable giving and assumes a maximum growth scenario to estimate the plausibility of this assumption.

2. Macroeconomic Potential of the Treasury Proposal

Forecasts of the growth of the U.S. economy are quite numerous. This memorandum shall focus on three: the forecast of the Congressional Budget Office in its mid-session update, the mid-session review prepared by the Administration, and a rapid growth forecast that we will assume represents the maximum likely rate of growth possible for the U.S. economy sustainable for a five year period. Table 9 presents the levels of real GNP (in 1972 dollars) under the three scenarios.

Table 9
Real GNP Under Alternative Macroeconomic Scenarios
(Billions of 1972 dollars)

Year	CBO	Administration	Fast Growth
1984	$1646	$1646	$1646
1985	1706	1716	1749
1986	1759	1785	1858
1987	1816	1856	1974
1988	1872	1930	2098
1989	1928	2005	2229

The CBO forecast assumes an average rate of growth of 3.2 percent over the forecast period. This is slightly faster than the average rate of growth for the post-war period. The Administration forecast assumes a rate of growth of 4.0 percent for the forecast period -- 25 percent faster. Thus, the Administration forecast predicts growth of $359 billion for this period whereas CBO expects growth of $282 billion. The fast growth scenario assumes a rate of growth of 6.25 percent for the forecast period. This was arrived at by taking the fastest five year rate of growth in post-war history, 1961-1966, which was 5.25 percent, and adding a full percentage point to the growth rate in each year. This forecast contemplates growth over the period of $583 billion. This is more than twice as much growth as is forecast by CBO and is 62 percent more growth than is currently expected by the Administration for the 5 year period.

This record breaking rate of growth will be assumed in this memorandum to be the pace which would result from the passage of the Treasury tax bill. Under no circumstances should it be considered a "forecast" of such growth. Rather, it represents an upper bound on the amount of growth one could conceivably expect from a more robust economy. In fact, the resulting rate from such growth — about 3.5 percent -- would be likely to set off severe problems in the economy before such a rate of growth could actually occur.

Table 10 illustrates the relationship between real growth in the economy and real growth in charitable contributions by individuals over the past 12 years, as well as the relationship between the nominal rates of growth of each. The data suggest that in general, nominal charitable giving has roughly kept pace with inflation over the past 12 years. Furthermore, the growth in charitable giving is more stable than the growth in the economy. Although charitable giving rises more when the economy expands very rapidly, it rarely expands more quickly than the economy during periods of rapid economic growth. Note for example, that of the 5 years of the period when growth was more than 5 percent, giving grew faster than the economy in only one of those years: 1973. Furthermore, in the four years of the period when the economy shrank, giving either grew or shrank less rapidly than the economy. Thus, the rate of growth of giving is far more stable than the economy.

This stability can be quantified using regression analysis. A least squares regression of the rate of growth of charitable giving on the rate of growth of the economy produces the following relationship:

$$\%\text{ Change in Giving} = \underset{(0.10)}{1.08} + \underset{(0.13)}{0.54} \times \%\text{ Change in GNP} \qquad R^2=0.64$$

The standard errors of the coefficients are in parentheses below the estimates. These standard errors suggest that the coefficients are highly significant -- to the 99 percent confidence interval. Furthermore, the R^2 term implies that a significant amount of the variance in the relationship is explained by the equation.

Table 10

The Growth of Giving and GNP

	Growth Rates			
	Nominal GNP	Nominal Giving	Real GNP	Real Giving
1971	8.6%	6.9%	3.4%	1.8%
1972	10.0%	6.9%	5.7%	2.6%
1973	11.8%	12.3%	5.8%	6.2%
1974	8.1%	9.3%	-0.6%	0.4%
1975	8.0%	8.6%	-1.2%	-0.7%
1976	10.9%	9.6%	5.4%	4.2%
1977	11.7%	10.0%	5.5%	3.9%
1978	12.8%	12.2%	5.0%	4.5%
1979	11.7%	11.0%	2.8%	2.2%
1980	8.9%	9.3%	-0.4%	0.0%
1981	11.6%	12.1%	1.9%	2.4%
1982	4.1%	8.7%	-1.8%	2.5%

The interpretation of this equation is that, typically, real charitable giving will grow about 1 percent per year even if the economy does not grow at all. For each one percent growth in the economy, charitable giving will grow about 0.5 percent more than in the zero growth situation. Thus, it is clear that the charitable community is better off with faster economic growth than with slower economic growth.

If we apply these figures to the economic forecasts presented earlier, it is clear that the assumption of the rapid economic growth scenario will help out charitable organizations. Table 11 presents the estimated levels of real and nominal giving for 1989 under the three economic scenarios described above:

Table 11
Giving under Alternative Economic Scenarios -- 1989

Forecast	Nominal Giving (1989 Dollars)	Real Giving (1972 Dollars)
CBO	80.4	29.2
Administration	82.1	29.8
Rapid Growth	87.5	31.8

These estimates are in line with the GNP figures presented earlier. The rapid growth forecast produces a GNP which is 16 percent higher in real terms than the CBO forecast. Giving will rise about half as fast as GNP, and indeed giving is 9 percent higher under the rapid growth forecast than under the CBO asumptions. Thus, rapid economic growth is clearly beneficial to charitable organizations.

3. Combining the Direct and Indirect Effects of the Treasury Tax Proposal

The preceding section noted that rapid economic growth will produce higher charitable giving than slower growth assumptions. However, the price of that economic growth is not zero to charitable organizations. The rapid economic growth forecast was predicated on the passage of the Treasury tax reform proposal. Thus it is essential to combine the effects of the two proposals.

Table 12 presents these results. For each forecast of the macroeconomic situation two levels of giving in 1989 are presented, one assuming current tax law, one asuming passage of the Treasury initiative.

Table 12
Giving Under Alternative Economics and Tax Laws

Forecast	Current Law	Treasury Proposal
CBO	80.4	63.5
Administration	82.1	64.8
Rapid Growth	87.5	69.1

The decline in giving under all scenarios was 21 percent between current law and the Treasury proposal -- a detailed description of how that figure was computed is presented in Section 1.

The data makes clear that rapid economic growth resulting from the Treasury proposal will make up part of the decline in giving from the tax bill. Under the CBO assumptions, the passage of the Treasury proposal would cause a 21 percent decline in giving by individuals. This decline is only 14 percent if one assumes that the Treasury proposal also produces rapid economic growth. Stated differently, rapid economic growth (about twice as fast as CBO) will make up about one third of the decline in projected giving from the Treasury proposal.

Under the Treasury proposal and the rapid economic growth assumption, 1989 real giving (in 1972 dollars) will be $25.2 billion. This compares with real giving of $25.3 billion in 1984. Under these assumptions, real GNP would be 35 pecent higher in 1989 than in 1984. Thus, the effect of the Treasury proposal would be to hold real charitable giving constant while real GNP grew 35 percent. Needless to say, this would involve a substantial shrinkage in the importance of the non-profit section in American life. Nor would the transition be as painless as this scenario suggests. The real growth would take 5 years to restore giving to its 1984 levels, but the decline due to the tax change would be more sudden. Thus, during the interim, real charitable giving would be below its 1984 level.

As noted earlier, these estimates were not made using a formal computer simulation. Rather, the calculations were designed to err on the side of optimism. The pernicious direct effects of the Treasury proposal were minimized while the economic scenario was maximized. A formal computer simulation would provide a more detailed estimate of the effect of the proposal. However, although the quantitative effects might be different, the qualitative conclusion is inescapable: rapid economic growth will not make up the tremendous disincentives for the charitable community contained in the Treasury tax proposal.

APPENDIX D

12/84

Tax Reform and Charitable Giving: Focus on Higher Education

Charles T. Clotfelter

The attached paper describes the simulations I have undertaken for 16 proposed tax plans as well as a number of other tax schemes, all simulated for the year 1985. Table 4 of the paper details the effect of each proposal on contributions to various types of organizations including institutions of higher education. It is quite clear that the declines in the higher education area are among the highest. The one principal reason for this is the increase in the net cost of giving occasioned by the cuts in marginal tax rates for upper-income taxpayers provided for in most proposals. The Treasury proposal, for example, raises the net price from 50¢ to 65¢ per dollar. For higher education, only two other provisions appear to be of great significance. First, proposals that eliminate the charitable deduction altogether are more detrimental. Throwing out the deduction would clearly be very damaging to higher education as well as to the nonprofit sector in general.

The other major provision of special importance to higher education is the tax treatment of gifts of appreciated assets. Not only do institutions of higher education receive proportionately more of their gifts from upper-income taxpayers, they also receive a disproportionate share of gifts of appreciated assets. Under current law, the taxpayer contributing such a gift receives not only the benefit of the deduction of the market value of the asset but also is able to avoid capital gains tax on the gain. Under the Treasury proposal, this extra benefit is eliminated by allowing only the adjusted basis to be deducted or such assets when given. If such "constructive realization" of gifts of appreciated assets were applied to the 1985 actual law, gifts to institutions of higher education would decline by an estimated 8 percent. It is important to note, however, that such an estimate is dependent in large part on assumption as opposed to hard data. Specifically, there is no information in tax return data to indicate the ratio of gain to basis in gifts of appreciated assets. Therefore, estimates such as this are necessarily based on an assumed average ratio of gain to value. In this case, the ratio of 50 percent is assumed.

Table B-1 summarizes the projected impact of 11 proposals plus two hypothetical plans, a 10 percent surtax based on current law and a modification of the Treasury proposal which keeps the current treatment of gifts of appreciated assets and drops the deduction floor. The table shows clearly that the impact on higher education in each proposal depends on its effect on giving by high-income taxpayers. Under most plans the proportion of gifts from these with incomes over $75,000 (in 1982) falls. Only under the surtax does this proportion increase; that is due to the increase in marginal tax rates and concomitant decline in net cost of giving. For higher education, all of the tax reform plans, including the Treasury's proposal, will cause drops in giving.

Table B-1

Projected Contributions in 1985 for Selected Plans: Total, Higher Education and Percent Given by High-Income Taxpayers

Proposal	Total Amount ($ B)	Percent given By top 5 income classes*	Higher education Amount	Higher education % change from current
Current law	59.5	15.7	2.89	-
Bradley-Gephardt	46.6	10.7	1.75	- 39
DeConcini	40.0	12.0	1.63	- 43
Kemp-Kasten	53.1	11.3	2.07	- 28
Quayle	48.9	13.5	2.11	- 27
Hatfield	55.2	9.9	1.99	- 31
Crane	40.9	11.1	1.58	- 45
Mitchell	46.3	10.2	1.68	- 42
Hansen	47.7	10.0	1.56	- 46
Stark	55.6	12.5	2.27	- 24
Roth	56.5	15.5	2.65	- 8
Treasury	47.7	13.6	2.10	- 27
10% Surtax	63.0	16.7	3.19	+ 7
Treasury with no deduction floor and current treatment of appreciated assets	50.4	14.2	2.29	- 21

NOTE: All simulations use constant elasticity model. All except Stark and 10 percent Surtax assume revenue neutrality + $75,000 and over in 1982.

12/84

TAX REFORM AND CHARITABLE GIVING IN 1985*

Charles T. Clotfelter**

In the last several years interest in fundamental tax reform has increased markedly. One question raised by such consideration is what effect such reform might have on charitable contributions. This memorandum addresses this question for the case of contributions by individuals. Section A presents a short explanation of how taxes affect giving. Section B describes the main features of current tax reform proposals. It discusses the probable impact of tax reform proposals in general, and the Treasury proposal in particular. Section C briefly describes the method of simulation, and section D describes the results. The concluding section offers several concluding observations.

---

*I am grateful to Christopher Marcelli for programming assistance and to Patsy Terrell for manuscript preparation.

The work described here was undertaken at the request of and with the financial support of Independent Sector and the Association of American Universities. The views expressed in the paper are mine, however, and do not necessarily represent the positions of Independent Sector, Association of American Universities, or Duke University.

**Duke University.

A. How Taxes Affect Individual Giving

Few would argue that taxes are the most important influence on charitable giving. There is considerable evidence, however, to indicate that taxes can have a significant effect on contributions. Economists identify two separate effects. First, taxes obviously affect after-tax income, and the level of after-tax income is highly correlated with the level of contributions. Other things equal, an increase in an individual's tax liability will tend to depress giving by decreasing net income. Second, taxes affect the net cost per dollar of giving. If contributons are deductible in calculating taxes, then making a gift reduces tax liability, and the after-tax cost of giving a dollar becomes less than a dollar. For example, a taxpayer in the 30 percent tax bracket enjoys a tax reduction of 30¢ for each dollar contributed. The net cost is therefore only 70¢ per dollar of contributions.

Econometric analyses indicate that both net income and the net cost per dollar are significant factors in explaining giving patterns of individuals. Specifically, an increase in net income of 10 percent is associated with increases in giving on the order of 7 to 8 percent. A 10 percent increase in the net cost per dollar is usually associated with decline in contributions of more than 10 percent, often between 12 and 13 percent. The ratio between these percentage changes is referred to as an elasticity. On the assumption that two hypothetical situations differ only by the prevailing tax regime, the effect of changes in tax law can be simulated by applying the changes in net income and net cost per dollar implied by each law.

B. Current Tax Reform and Effects on Giving

Current tax reform initiatives have been motivated in large part by dissatisfaction with the existing income tax. Critics charge that the current tax is needlessly complex, unfair, and not conducive to economic efficiency. In place of the current tax, most proposals would substitute a structure with a broader tax base and fewer deductions, thereby allowing the same revenue to be raised with lower rates. Whether it uses a smaller number of tax rates or a true "flat-rate" structure, the reduction in tax rates made possible by broadening the tax base has the potential of improving incentives for work, savings, and tax compliance.

Table A-5 in the Appendix summarizes the major provisions of 17 tax proposals introduced in Congress in the past year. Although the specific provisions vary considerably from proposal to proposal, the tendencies to tax more income, allow fewer deductions and credits, and apply lower tax rates are readily apparent. Table 1 shows the extent of tax rate reduction implied by the proposals. Compared to the current maximum rate of 50 percent, the tax proposals introduced in Congress have maximum rates that range from 10 to 50 percent. For comparison, Table 1 also shows several modifications of current law.

It is useful to focus on the aspects of tax reform proposals that will have an impact on charitable contributions. In general, tax reform proposals can affect giving in four ways. First, proposals can eliminate the deduction or restrict it to taxpayers who itemize their deductions. If no tax credit is substituted, the elimination of the deduction can result in a significant increase in the net cost per dollar of giving. The provisions affecting the deductibility of contributions for each proposal are noted in Table 1. Less obviously, changes that make itemization status less attractive may also affect the number of taxpayers who receive an incentive. Second, any change in the rate of tax will affect the net cost. A reduction in rates--specifically the rate at which gifts are deducted--will tend to increase the net cost of giving.

Third, proposals may affect the attractiveness of contributing appreciated assets. Currently, a taxpayer who makes a gift of appreciated assets not only receives the benefit of the deduction for the market value but in addition does not have to pay the capital gains tax on the contributed property which would have been due if indeed the gain had been realized. This added advantage is eliminated by any proposal that limits the deductible amount to basis or requires capital gains tax to be paid for such gifts. Finally, contributions can be influenced by floors or ceilings that limit the deductibility of contributions.

Table 2 summarizes the effect of various provisions of tax proposals on the proportion of taxpayers who receive an incentive (that is, have a net cost per dollar of less than $1) and on the net cost per dollar, or price, of giving. Proposals that have no provision for a deduction result in a net cost of 1.0 per dollar given. Table 3 focuses on one aspect of the coverage of incentives for giving on taxpayers, the proportion of taxpayers who itemize their deductions. This proportion depends on the number of deductions a particular proposal allows as well as the threshold level for itemization. Among those proposals shown in Table 3, the threshold level ranges from $3,500 to $6,000. The estimated percentage of taxpayers who itemize ranges from 39 percent under current law to 27 percent under Bradley-Gephardt.

Before turning to the simulation results, it is useful to summarize the major provisions in the recent Treasury proposal. This proposal would, first, repeal the above-the-line deduction for non-itemizers in 1986. Second, contributions by itemizers would be deductible only to the extent that they exceeded 2 percent of AGI. For taxpayers whose contributions fall under this threshold, there would be no tax incentive for giving. Third, the special benefit of donating gifts of appreciated assets presently in the tax law would be eliminated. The deduction in such cases would be limited to the inflated basis of the asset or market value, whichever is less. In the case of appreciated assets, this treatment is equivalent to a requirement that capital gains be realized before gifts are made. Fourth, the reduction in allowable itemized deductions under the Treasury proposal would reduce the number of itemizers, thus reducing the number of taxpayers who receive an incentive to give. Finally, the overall reduction in tax rates would raise the net cost of giving per dollar for those with a tax incentive.

C. Simulation Method

The simulations presented in this report are based on an econometric model of charitable giving as well as a number of assumptions regarding the growth of income and other economic variables into the future. It is useful to describe some of the features of this simulation method before presenting detailed results. As described in the Appendix, the data which formed the basis of the simulations are published tax return information for 1982. Income and other dollar amounts were "aged" to 1985 using per capita nominal rates of growth of GNP. The resulting income and other dollar quantities at each income level and for each of four types of tax returns were subjected to the definitions and tax rates of the various proposals in order to calculate tax liability and tax rates. Where the proposals called for indexation, such changes are made based on projected rates of inflation. The simulations of tax liability do not account for all aspects of each proposal due to the need for unpublished data. In each case, however, the most important aspects of each proposal are reflected in the simulations as well as all of the major provisions affecting charitable giving directly. Using these proposals, net income and the net cost of contributions per dollar were calculated for four representative households in each of fourteen income classes, or 56 representative households per proposal. For each representative unit, the parameters from an econometric model of contributions were applied to contributions in 1982 to project a giving level under the proposal in 1985.

The results should be interpreted as long-run effects, the projected giving levels that would prevail if the proposal had been in effect for some time. That is to say, lags in adjustment of giving behavior to changes in tax law are ignored. As suggested above, changes in the rate of itemization among taxpayers are reflected using an algorithm described in some detail in the Appendix. Finally, contributions by income class are allocated to various types of charitable organizations based on adjusted distribution data from a 1973 survey of giving. For each given income class, the proportional distribution by type of organization is assumed to be constant, although the total amount of giving may vary.

D. Simulation Estimates

Table 4 presents in some detail the simulation results for several principal simulations. The basic simulation is for 1985 under the assumption of constant price and income elasticities and with total revenues adjusted to the level of 1985 law revenues. For the 16 tax reform proposals that have been introduced in Congress, all project a decline in contributions. The overall decline ranges from 2 percent in the Siljander bill (with rates adjusted significantly for revenue neutrality) to 33 percent in the DeConcini bill. The former law has a universal deduction while the latter allows no deduction at all. Percentage declines in giving are greatest for education, medical, and cultural organizations and are generally least severe for religious organizations.

Table 5 gives more detailed estimates for four alternatives for the year 1985. Each of the three tax proposals, Bradley-Gephardt, Kemp-Kasten, and the Treasury proposal imply declines in 1985 in each sector. For higher education, for example, projected giving by individuals declines from about 2.9 billion to about 2.1 billion under Kemp-Kasten and the Treasury proposal and 1.8 billion under Bradley-Gephardt.

E. Caveats

In concluding, it is important to reemphasize the limitations of the present analysis. There are a number of sources of possible error in these simulation estimates: statistical errors in estimating coefficients used in the econometric models, errors in estimating the proportion of itemizing taxpayers, errors in estimating the contributions by nonitemizers based on 1973 survey data, probable changes in the distribution of giving by type of organization over the last two years, and forecast errors in the underlying economic variables used, among others. In addition, the tax proposals are not simulated exactly in every detail, although the revenue adjustment tends to mitigate the effect of any errors in calculating tax liabilities. The current data are aggregated, and thus are less appropriate in examining behavior with respect to thresholds such as percentage floors in contributions deductions.

Finally, models such as those used here may fail to reflect fully the range of possible taxpayer reaction to tax changes. One example is the possibility that, faced with a floor for the deductibility of charitable contributions, taxpayers might well choose to "bunch" their giving in alternate years in order to have more of their contribution dollars deducted. The greater this bunching behavior, the less significant would be the effect of a floor. A more important variation in taxpayer behavior would be the possible response of donors to changes in the aggregate level of contributions in the economy. If donors perceived that total contributions were declining and that nonprofit organizations were suffering as a result, a shift in the donations function might occur, implying a greater level of contributions for a given net cost and net income level for an individual. Although some speculation and research has addressed the question of whether public expenditures "crowd out" private giving, there is little hard evidence to go on in assessing the possible impact of a significant decline in overall giving on the contributions of individuals. If the income tax law changes drastically, as envisioned in many of these proposals, it is not inconceivable that charities would redouble their efforts to raise money by pointing out the increased need for gifts. Such "systems effects" cannot readily be built into existing models of charitable giving, but they cannot be dismissed as possibilities affecting future giving.

C. Clotfelter
12/9/84

Table 1

Present Law and Selected Tax Proposals: Maximum Tax Rate and Provision for Contributions

Description	Maximum tax rate (%)	Provision for contributions
Current law		
2. 1984 Law	50	Itemized deduction; 25% deduction up to $300 for nonitemizers
2a. 1985 Law	50	Itemized deduction; 50% deduction for nonitemizers
Generic flat-rate taxes		
3. Flat rate on AGI	11.8	None
4. Flat rate on taxable income	19.5	Itemized deduction
Tax reform proposals		
14. Bradley-Gephardt (H.R. 3271; S. 1421)	30	Deduction (at 14%)*
15. DeConcini (S. 557) (Hall-Rubushka))	19	None
16. Kemp-Kasten (H.R. 5533; S. 2600)	25	Deduction*
17. Quayle (S. 1040)	30	Deduction**
18. Hatfield (S. 2158)	30	20% credit over 1% AGI
19. Crane (H.R. 542)	10	None
20. Mitchell (S. 1767)	36	Itemized deduction (at 12%)
21. Hansen (H.R. 170)	15	Deduction for religious gifts*
22. Heftel (H.R. 5841)	50	Itemized deduction to 5% AGI
24. Stark (H.R.)	50	Deduction reduced by 10%*
25. Quillen (H.R. 4776)	10	Deduction**
26. Siljander (H.R. 5432)	10	Deduction**
27. Young (H.R. 3516)	15	Deduction

Description	Maximum tax rate (%)	Provision for contributions
28. Dreier (H.R. 1770)	14	None
29. Roth (S. 3042)	45	Deduction*
32. Treasury proposal	35	Itemized deduction over 2% AGI; constructive realization
Modification of current law		
7. 20% charitable credit	50	20% tax credit
11. Full deduction for nonitemizers	50	Deduction**
12. No charitable deduction	50	None
30. Present law with 10% surtax	55	See 2 above
31. Present law with VAT	50	See 2 above

* Deduction for nonitemizers assumed 50% in 1985.
** Assumed to apply fully to nonitemizers.

Table 2

Availability of Tax Incentive for Contributions and Price of Giving, Alternative Tax Systems, No Revenue Adjustment, 1985

	Percentage of taxpayers with deduction or credit	Average price of giving	Minimum price of cash gift
Current law (1985)	100	.86	.50
Generic flat-rate taxes			
3 Flat rate on AGI	0	1.00	1.00
4 Flat rate on taxable income	39	.93	.79
Tax reform proposals			
14 Bradley-Gephardt	100	.91	.86
15 DeConcini	0	1.00	1.00
16 Kemp-Kasten	100	.83	.75
17 Quayle	100	.82	.70
18 Hatfield	100[a]	.81	.80
19 Crane	0	1.00	1.00
20 Mitchell	32	.96	.88
21 Hansen	100[b]	.87	.85[b]
22 Heftel	36	.89	.50[c]
24 Stark	100	.91	.55
25 Quillen	100	.90	.90
26 Siljander	100	.90	.90
27 Young	100	.85	.85
28 Dreier	0	1.00	1.00
29 Roth	100	.84	.55
32 Treasury	28[a]	.93	.65
Modification of current law			
7 20% charitable credit	100	.84	.80
11 Full deduction for non-itemizers	100	.81	.50
12 No charitable deduction	0	1.00	1.00
13 Constructive realization	100	.85	.50
30 10% surtax	100	.81	.45
31 Additional 2% VAT	100	.82	.50

---

[a] Percentage of taxpayers eligible for gifts over 1% (Hatfield) or 2% (Treasury) of AGI.

[b] Religious gifts only.

[c] Gifts under 5% of AGI.

Table 3

Zero Bracket Amount, Allowable Deductions, and Percentage of Taxpayers Itemizing, Current Law and Selected Proposals, 1985

	Zero bracket amount for for couples	Allowable deductions as percent of current	Estimated percent itemizing
Current law	3567[a]	100	39
Bradley-Gephardt	6000	86	27
Kemp-Kasten	3500	75	33
Stark	3567[a]	90	36
Treasury	3800	58	28

[a] $3400 in 1984; indexed.

Table 4
Simulation Results: Percent Difference in
Contribution Compared to Current Law

	1985										1984
	Constant elasticities									Variable elasticities revenues adjusted Total	Constant elasticities revenues unadjusted Total
	Revenues adjusted								Revenues unadjusted Total		
	Total	Religion	Education Higher	Education Other	Combined appeals	Medical	Culture	Other			
eneric flat-rate taxes											
3 Flat rate on AGI	-31	-28	-46	-47	-38	-36	-51	-39	-31	-26	-28
4 Flat rate on taxable income	-16	-13	-29	-30	-22	-20	-34	-23	-17	-14	-14
ax reform proposals											
4 Bradley-Gephardt	-22	-18	-39	-40	-29	-28	-46	-30	-22	-22	-19
5 DeConcini	-33	-30	-43	-46	-38	-37	-48	-39	-33	-29	-29
6 Kemp-Kasten	-11	- 7	-28	-29	-18	-17	-35	-19	-11	-14	-13
7 Quayle	-18	-16	-27	-26	-20	-21	-30	-20	-18	-20	-22
8 Hatfield	- 7	- 2	-31	-34	-18	-15	-40	-20	- 7	-11	- 3
9 Crane	-31	-28	-45	-47	-38	-36	-51	-39	-30	-26	-27
0 Mitchell	-22	-18	-42	-41	-30	-29	-49	-31	-24	-20	-20
1 Hansen	-20	-12	-46	-48	-38	-36	-52	-39	-22	-19	-21
2 Heftel	- 2	- 4	+14	+11	+ 4	+ 3	+17	+ 4	0	0	+ 2
4 Stark	a	a	a	a	a	a	a	a	- 8	a	- 8
5 Quillen	- 3	+ 2	-24	-28	-13	-11	-33	-15	-16	- 9	-13
6 Siljander	- 2	+ 3	-21	-25	-11	- 8	-29	-13	-16	- 8	-13
7 Young	- 4	+ 1	-21	-25	-12	-10	-28	-14	-14	- 8	-13
8 Dreier	-31	-28	-44	-46	-38	-36	-50	-39	-33	-26	-30
9 Roth	- 5	- 5	- 8	- 3	- 4	- 6	- 9	- 4	- 7	- 7	- 9
2 Treasury	-20	-18	-27	-26	-23	-23	-29	-23	-21	-18	-18
odifications of current law											
7 20% charitable credit	-10	- 4	-34	-36	-20	-18	-43	-22	-12	-12	- 8
1 Full Deduction for nonitemizers	+ 7	+ 8	+ 5	+ 7	+ 6	+ 6	+ 5	+ 6	+ 6	+ 5	+ 9
2 No charitable deduction	-31	-26	-50	-52	-40	-37	-57	-41	-33	-25	-29
3 Constructive realization	- 2	- 1	- 8	- 5	- 4	- 4	- 9	- 4	- 2	- 2	- 2
0 10% Surtax	a	a	a	a	a	a	a	a	+ 4	a	+ 3
1 Additional 2% VAT	a	a	a	a	a	a	a	a	- 2	a	- 3

[a] Intended explicitly to increase revenues. No revenue-adjusted results shown.

Table 5

Estimated Individual Contributions by Type of Organization 1982 and 1985 (billions of dollars)

	1982	1985			
		Current law	Bradley-Gephardt	Kemp-Kasten	Treasury
Religious	33.76	43.76	35.93	40.75	35.8
Education					
Higher	2.36	2.89	1.75	2.07	2.10
Other	.80	.92	.56	.65	.69
Combined appeals	2.63	3.26	2.32	2.66	2.52
Medical	2.61	3.29	2.38	2.74	2.54
Cultural	0.68	0.81	0.44	.53	.57
Other	3.68	4.54	3.19	3.66	3.49
Total	46.54	59.51	46.59	53.09	47.73

Clotfelter

12/84

Technical Appendix

This appendix provides additional documentation of the methodology, assumptions, models, and data used in these simulations. Section A describes the basic data and economic assumptions. Section B describes data on contributions included as supplementary basic data. Section C summarizes the major provisions of the tax proposals analyzed and describes the assumptions employed in calculating those taxes. Section D describes the econometric models used in the simulations.

A. Basic Data and Economic Assumptions

The basic source of data used in these simulations is the Statistics of Income--1982, Individual Income Tax Returns (Washington: Government Printing Office, 1984). This data source provides information by income class on income source, exemptions, deductions, and tax credits. Data on itemized deductions are given for itemizers only. Table A lists the data items used for 1982.

Central to the process of "aging" data to simulate later years are the assumptions regarding inflation and income growth. Price changes measured by the GNP price deflator are used to translate dollar amounts in dollars of different years. This index is also used to index tax laws where proposals call for indexation; the difference between percentage rates of increase for consumer prices (CPI) and the GNP price deflator are insignificant. Incomes, deduction items, and tax credits are assumed to grow at the rate of nominal per capita GNP.

Population growth used to calculate per capita quantities is assumed to proceed at the rate of 0.96 percent per year, the exponential rate observed between 1980 and 1984. (U.S. Bureau of the Census, Current Population Reports, No. 954, "Estimates of the Population of the United States to May 1, 1984," July 1984. Comparing these assumptions to actual changes in 1980-1982, nominal GNP increased 16.7 percent, compared to an increase in total AGI of 14.8. The number of returns increased at an annual rate of 0.76 percent, and the number of joint returns at a 0.89 percent (U.S. Department of Treasury, SOI Bulletin,4 (Fall 1984) p. 70).

B. Supplementary Data on Contributions

The data described above was supplemented in two ways by survey data on charitable contributions. First, contributions by nonitemizers were estimated from survey data for 1973 on contributions by nonitemizers. For a description of the survey, see Morgan, Dye & Hybels (1977). Modified average contributions and income class limits were inflated to 1982, and the resulting averages were interpolated based on 1982 dollar class limits. The resulting estimates are shown in Table A-2. Until tax return data on contributions by nonitemizers are available without reference to a limit (in 1985), such survey estimates are essential for estimating total contributions by individuals.

Information on the distribution of contributions by type of charitable organization is essential for estimates of the differential impact of tax proposals. The simulations presented here employ data from the same 1973 survey. Individuals were asked about the recipients of their largest four gifts, and these organizations were put into one of 7 groups. For the purpose of these simulations only the distribution of major gifts is measured, with unidentified gifts being assumed to be distributed in the same manner as major gifts.* The income classes given in the 1973 survey were

---

See Morgan, Dye & Hybels (1977, p. 208).

inflated to 1982 levels, and the resulting class averages were interpolated to conform to the 1982 dollar class intervals. The resulting distribution for 1982 is given in Table A-3. This distribution implies a marked dropoff in the relative importance of religious giving as income rises. At the top of the income scale, higher education accounts for about a third of all individual giving.

C. Calculation of Taxes under Alternative Proposals

In order to calculate taxes under each tax law or proposal, a computer program was written that embodied the major provisions of each. Taxes and marginal tax rates were calculated for each of four representative taxpaying units in each of 14 income classes, yielding 56 separate calculations for each calculation. The four representative units were: single nonitemizers, single itemizers, joint nonitemizers, and joint itemizers. The relatively few returns that were not single or joint were allocated into these two tax status groups. Totals were calculated by weighting the resulting quantities by the number of returns in each group. This section describes the major provisions of each tax proposal considered.

Provisions of tax proposals. The major provisions of the tax proposals examined in this report are summarized in Table A-5. As noted in the text above, the program employed in this analysis does not attempt to reflect all of the provisions of each proposal, merely the most important ones from a revenue standpoint and all those related to charitable contributions. It should be noted, however, that the program provides revenue estimates that are, for most proposals, roughly of the same size as projected actual revenues under existing law. Two methods of simulation are possible. Revenues can be calculated as the proposals are written, or tax rates can be adjusted so as to yield a constant level of revenues. For truly revenue-neutral proposals, the latter approach makes no difference.

Imputed quantities in taxable income. Because most tax proposals now under discussion would tax sources of income not presently taxed, it was necessary, in a number of cases, to make approximations or imputations in order to calculate hypothetical taxes. In some cases where the revenue impact is likely to be small, no approximation was made. This section describes the approximations made and the quantities omitted.

1. Consumption. Where personal consumption or saving is a part of the tax calculation, consumption was calculated by applying an average propensity to consume (APC) for an income class to adjusted gross income. The APC is the ratio of consumption to income. These APC's are based on 1950 survey data. The dollar income class limits are adjusted for inflation, as shown. Consumption is calculated by multiplying AGI by the appropriate APC. Savings is approximated as AGI less consumption, less federal income tax, and less 5 percent of AGI to represent state and local taxes.

2. Social security. Under existing tax law, social security (OASDI) benefits are not included in taxable income. Some proposals would tax all or part of social security, however. In order to impute social security by income level, the total amount of OASDI benefits for 1982 ($155,699 million) was allocated in proportion to the number of

taxpayers over 65. (U.S. Department of HAS, Social Security Administration, Social Security Bulletin, vol. 46, no. 5 (May 1983), Table M-1, p. 21.)

3. Government transfers. One proposal taxes government transfers, which include disability benefits, public assistance, supplemental security income payments, railroad, civil service, veterans and other pensions, as well as OASDI. Excluding unemployment compensation (data on which are available in Statistics of Income), and workers' compensation (see below), total cash transfers were $250,232 million. For simplicity, these transfers are also allocated according to the over-65 population. (Social Security Bulletin; see above).

4. Workers' compensation. The amount of workers' compensation in 1982 was $12,273 million. This was assumed to be distributed in proportion to the disability income exclusion (totaling $1,064.1 million in 1982). This ratio of 11.53 was applied to the disability income exclusion by class. (Social Security Bulletin; see above).

5. Gifts and inheritances. Gross estate on estate tax returns in 1976 was $48.2 billion (U.S. Treasury, Statistics of Income--1976, Estate Tax Returns, Table 1, 1979). This includes gifts disbursed within three years of death but does not include other gifts or estates not subject to the estate tax, which tends to make this an underestimate of all inheritances. On the other hand, this figure does not subtract out taxes and deductions. To estimate total gifts and inheritances, $50 billion was used for 1976, the 1980 value being about

$65 billion. This represents about 4 percent of total AGI in 1980, so that ratio was used to approximate gifts and inheritances.

6. Employer-provided fringe benefits. For the calculation of proposals taxing employer-provided fringe benefits, such fringes were calculated as a percentage of wages by income class. The ratio to wages in 1982 for the following fringes were calculated and used: group health insurance: 0.044; group life insurance: 0.005 (U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, July 1984, Table 6.15, p. 75; Table 6.6B, p. 72).

7. Other data items. Data were not readily available to approximate the following items: the value of scholarships and fellowships, increase in the cash surrender value of life insurance policies, the one-time capital gains exclusion for homeowners, sick pay, and death benefits. None of these are important components of income, and their exclusion makes little difference in the level or distribution of calculated tax liabilities. Where the revenue-neutral assumption is used, there is no overall effect on after-tax income from their exclusion. Another data item which published statistics do not include is the breakdown of the interest deduction between principal residence mortgage interest and other mortgage interest and between other interest used for investment and remaining interest. For the purpose of computing the limitations on the interest deduction in the Bradley-Gephardt, Mitchell, and Treasury proposals, all mortgage interest and half non-mortgage interest was assumed to be deductible.

Deduction floors. The current tax law contains one principal "floor" for itemized deductions, being the 3 percent-of-AGI threshold below which expenses are not deductible. In 1984 the floor was raised to 5 percent. Several proposals change this floor, and two proposals introduce floors for charitable contributions. Because the data set used for the current simulations contains class averages rather than disaggregated data, it is necessary to estimate the percentage of expenditures that exceed a given floor. Data on the distribution of itemized deductions in 1978 were used to make such estimates for the medical and charitable contribution deductions. In each case, the proportion of expenditures that would have been deductible under percentage floors were calculated. Then the results were interpolated so as to conform to the 1982 dollar income class intervals. Table A-7 presents such estimates for the medical deduction for thresholds of 5 and 10 percent of AGI.

Table A-8 gives data on the distribution of itemized contributions. If there were a 2 percent floor for contributions, about 25 percent of contributions made by taxpayers in the $40,000-50,000 class would not be eligible. The remaining 75 percent would receive the same kind of subsidy as now available, assuming no change in tax rates.

Allocation of exemptions. Exemptions were allocated to single and joint returns in each income class. For taxpayer, blind, and over-65 exemptions, joint returns received proportionally twice those of single returns.* For dependent exemptions, allocation was based on the assumption that the ratio of dependents per return in joint households is 4.1 times that in single households.*

---

*For example, where J and NJ are joint and nonjoint returns in an income class, the proportion of adult exemptions assigned to joint returns was (2J/(2J+NJ)).

Itemization under alternative tax proposals. The percentage of taxpayers who itemize their deductions in each class was allowed to change as a result in the real value of the zero bracket amount and changes in the list of allowed deductions. Taxpayers benefit from itemizing their deductions only when their allowable deductions exceed the threshold level given by the zero bracket amount (ZBA). As I have shown elsewhere, one method of modelling this relationship is to focus on the ratio between AGI and the ZBA. One functional form that explains much of the cross-section and historical variation in the proportion of taxpayers in an income class who itemize (I) is the exponential function explaining the odds of itemizing:

$$I/(1-I) = A\,(AGI/ZBA)^h,$$

where AGI is the average AGI for the class, ZBA is the zero bracket amount for joint returns, and A and h are estimated parameters. Using data by income class over time, the parameter h has been estimated to be about 1.24.** Between periods 1 and 2 this exponential function implies:

$$\frac{I_2/(1-I_2)}{I_1/(1-I_1)} = \left[\frac{AGI_2/ZBA_2}{AGI_1/ZBA_1}\right]^h \qquad (1)$$

---

*Joint returns in 1980 had an average of 1.34 dependent exemptions while single returns had 0.33, for a ratio of 4.1 (Statistics of Income 1980, Table 2.4, p. 70). Where DJ and DNJ are dependents in joint and nonjoint returns, the assumption is (DJ/J)/(DNJ/NJ) = 4.1. This implies DJ = D/((NJ/4.1J) + 1), where D is total dependents.

**See Clotfelter (forthcoming, chapter 3, p. 129.)

over time, as deductible expenditures rise with income and the price level, the proportion of taxpayers with sufficient deductions to itemize will tend to increase if the ZBA is not raised concomitantly. This formulation is useful as long as there is no change in that list of allowable deductions.

One important way that tax proposals differ is the list of deductions that are allowed. Obviously, the elimination of one or more important deductions now available in the current law would reduce the number of taxpayers who can exceed the threshold necessary for itemization. In order to reflect the effect of changes in which expenditure items are allowed as deductions, equation (1) is modified to be:

$$\frac{I_2/(1-I_2)}{I_1/(1-I_1)} = \left[\frac{k\ AGI_2\ /ZBA_2}{AGI_1/ZBA_1}\right]^h \qquad (2)$$

where k is the aggregate ratio of allowable deductions under the proposal to allowable deductions under existing law. For proposals that have the existing set of allowable deductions, k = 1.0. For eight proposals the ratio for itemizing taxpayers of allowable deductions to existing law is different from 1.0. These ratios are approximated as follows: Bradley-Gephardt: 0.86; Kemp-Kasten: 0.75; Quayle: 0.46; Mitchell: 0.89; Heftel: 0.83; Stark: 0.90; Roth: 0.51; and Treasury: 0.58.*

---

*Like the calculation of taxes, these ratios are based in part on approximations. The limitation on non-mortgage interest in Bradley-Gephardt, Mitchell, and the Treasury proposal was reflected by including one-half of non-mortgage interest. The aggregate ratio of medical expenses over 5 and 10 percent of AGI was assumed to be 50 percent and 25 percent, respectively. Eighty percent of contributions are assumed to be deductible under a 2%-of-AGI floor. See above for further explanation.

D. Econometric Models of Charitable Giving

A sizable econometric literature has examined the relationship between the income tax and charitable giving by individuals. Although taxes are not the only or most important factor in determining contributions, they have been found to be significant. The income tax affects giving in two ways: through its impact on after-tax income and its effect on the net cost of making contributions. Where s is the reduction in taxes that results from contributiong a dollar, the net cost, or price, is 1-s. For itemizers, this is generally one minus the marginal tax rate.

The basic behavioral model used in the current simulations assumes constant income and price elasticities. Where average giving for taxpayers of a given group is given as G_o, where P_o and Y_o are price and net income in a base year, and P_1 and Y_1 are price and net income under a hypothetical tax regime, predicted giving in that tax regime is given by:

$$G_1 = (P_1/P_o)^b \ (Y_1/Y_o)^a \quad ,$$

where b is the price elasticity and a is the income elasticity. For the constant elasticity model, a = 0.78 and b = - 1.27.* An alternative model allows the price and income elasticities to vary by income class, with both elasticities increasing in absolute value as income rises. Elasticities under this model are calculated using a translog function estimated by Clotfelter and Steuerle (1981). The calculated elasticities for this formulation are illustrated in Table A-9 for one taxpayer type, married taxpayers filing jointly.

---

*See Clotfelter (forthcoming) or Clotfelter and Steuerle (1981) for a review of econometric studies in this area.

In order to be consistent with estimated models of giving, the price and income variables are based on predicted rather than actual giving levels. For each law, up to three successive calculations of giving are made for each taxpayer group. First, giving is calculated as a function of prices and net income calculated as if there were no contributions deducted. Then taxes and prices are recalculated to be used in a second estimate of giving. This will differ from the first only where contributions are used in calculating taxes. Finally, where a revenue-neutral assumption is imposed, prices and net income are recalculated based on a proportional adjustment in taxes, followed by a third calculation of giving. These estimates of contributions are then multiplied by the number of returns by type of taxpayer to arrive at an estimate of aggregate giving.

After any actual change in tax law, especially if the treatment of charitable giving were changed significantly, it would probably take taxpayers a few years to adjust fully in their giving behavior to the new rules. The simulations presented here ignore any such lags in taxpayer response to changes in the law. Rather, they represent long-run giving levels, that is, levels that would be expected if the tax proposal under consideration had been in force for some time.

Table A-1

Data Items from Statistics of Income, 1982

Description	Table (column)
Number of returns	1.4 (1)
Adjusted gross income (AGI)	1.4 (2)
Wages	1.4 (4)
Interest received	1.4 (6)
Dividends received	1.4 (14)
Dividend exclusion	1.4 (16)
Excluded portion of long-term capital gains	1.4 (51)
Net long-term gain in excess of short-term loss	1.4 (49)
Unemployment compensation	1.4 (114)
Unemployment compensation in AGI	1.4 (116)
Total statutory adjustments	1.4 (122)
Disability income exclusion	1.4 (138)
Payments to an IRA	1.4 (128)
Payments to a Keogh plan	1.4 (130)
Moving expenses	1.4 (124)
Alimony paid	1.4 (134)
Number of returns with itemized deductions	2.1 (1)
Adjusted gross income for itemizers	2.1 (2)
Total itemized deductions	2.1 (3)
Medical deduction	2.1 (5)
Mortgage interest	2.1 (39)
Contributions	2.1 (47)
Contributions in cash	2.1 (49)
Total exemptions	2.3 (2)
Exemptions for taxpayers	2.3 (3)

Table A-1 (continued)

Description	Table (column)
Exemptions for 65 and older	2.3 (5)
Exemptions for blind	2.3 (10)
Exemptions for dependents	2.3 (15)
Tax before credits	3.3 (2)
Total tax credits	3.3 (4)
Percentage of joint returns	1.2 (1, 27)
Earned income credit	3.3 (20)
Business/proprietorship income	1.4 (23, 25)
Interest deductions	2.1 (37)
State and local taxes	2.1 (23)
Income taxes	2.1 (25)
Property taxes	2.1 (27)
Other taxes	2.1 (35)
Miscellaneous deductions	2.1 (61)
Casualty and loss	2.1 (63)
Elderly credit	3.3 (6)
Foreign tax credit	3.3 (8)
Investment credit	3.3 (10)
Political contributions credit	3.3 (12)
Child care credit	3.3 (14)
Residential energy credit	3.3 (18)
Excluded portion of all-savers	1.4 (10)
Contribution deduction for nonitemizers	1.4 (147)
Pensions and annuities	1.4 (63)
Pensions and annuities in AGI	1.4 (65)
Deduction for working married couples	1.4 (136)

Table A-2

Contributions by Nonitemizers

Income (in thousands)	Average contributions
1973[a]	
Less Than $4	$ 69
$ 4 - 8	89
8 - 10	117
10 - 15	201
15 - 20	329
20 - 50	354
50 -200	2,003
200 +	6,946
1982	
$ 0 - 5	$ 135
5 - 10	152
10 - 15	174
15 - 20	201
20 - 25	393
25 - 30	426
30 - 40	648
40 - 50	692
50 - 75	692
75 -100	983
100 -200	3,917
200 -500	7,397
500-1,000	13,583
1,000 +	13,583

[a] Source: Clotfelter and Salamon (1982, p. 186).

Table A-3

Distribution of Contributions by Type of Organization, 1982

Income (thousands)	Type of Organization Religion	Education Higher	 Other	Combined appeals	Medical & health	Culture	Other
$0 - 5	88.1	1.5	0	3.0	4.5	0	3.0
5 - 10	88.1	1.5	0	3.0	4.5	0	3.0
10 - 15	88.1	1.5	0	3.0	4.5	0	3.0
15 - 20	87.9	1.5	0	3.1	4.4	0	3.2
20 - 25	85.9	1.3	0	3.8	3.8	0	5.1
25 - 30	85.9	1.3	0	3.8	3.8	0	5.1
30 - 40	84.7	1.4	0.1	4.0	3.9	0	5.7
40 - 50	72.8	2.5	1.2	6.2	4.9	0	12.3
50 - 75	63.4	5.4	6.7	7.6	4.4	2.7	9.6
75 -100	55.1	7.4	9.0	8.8	5.2	4.3	10.0
100 -200	22.7	13.3	1.7	14.3	15.7	5.8	26.4
200 -500	14.6	27.9	8.3	14.5	16.0	8.3	10.3
500 -1000	10.5	35.5	7.9	13.2	14.5	7.9	10.5
1000 +	12.3	32.9	4.1	8.2	8.2	12.3	21.9

Table A-4

Basic Economic Assumptions

	Nominal GNP	Gross National Product Deflator
1982 (actual)	$3,073 B	206.9
1984 (forecast)	3,683	223.1
1985 (forecast)	4,004	234.0

Source: 1982: 1985 Budget p. 2-10; 1984 and 1985: Congressional Budget Office, The Economic and Budget Outlook: An Update August 1984. (Forecasted year-to-year changes in the price deflator were 3.9 and 4.9 in 1984 and 1985.)

Senator QUAYLE. How about 1 minute?

Mr. MORRIS. Well, that's going to make it very short— I can't tell you the joke about the donkeys or moose.

Senator QUAYLE. No; I don't want to do that—go ahead.

STATEMENT OF LEIGH E. MORRIS, PRESIDENT, LA PORTE HOSPITAL, INC., LA PORTE, IN

Mr. MORRIS. Senator Quayle, I appreciate the opportunity to speak with you. I am here representing the health care field and I would be very quick to say that I don't think health care is a sacred cow, and I think that we in the health care field have to do our fair share of helping to deal with the budget deficit problem.

PROBLEM AREAS OF HEALTH CARE

I have four specific problem areas which I would like to mention very briefly. First, is a very strong concern about the fact that we lack any national health policy; and as a result of that, making any decisions about health or health care becomes a very complicated and difficult process.

Second, we've got some very important economic implications which forces us to address how much of our Federal budget should be allocated to health care. We've never developed any consensus on that.

Third, social implications, I think, are going to force us to recognize that we have growing needs of a rapidly aging population in this country. We haven't really recognized them, we haven't really embraced them; and that, by the same token, is true of our indigent population. We have chosen, in many ways, to try to ignore some of the health care needs of the indigent population.

As a result of that, we are drifting toward what I would call a "two-tiered system" of health care: one for the haves and one for the have nots. I don't think that's necessarily good, and I think it can be avoided if we make some intelligent decisions.

And finally, the political realities just can't be ignored, and you are more familiar with those than I.

RECOMMENDATIONS TO CONSIDER WHEN DEALING WITH THE DEFICIT

I've got eight specific recommendations which I would like to have taken into consideration as we deal with the deficit problem.

First of all, I think we need to begin as quickly as possible the process of building a national health policy. That's not something that's going to help this fiscal year, but it certainly will in the years to come hereafter.

Second, I hope that we can avoid embracing simplistic approaches to moderating Federal expenditures for health care; and in that regard, I think the proposed freeze on Medicare and the cap on Medicaid are unduly simplistic approaches.

Third, I think we need to address directly the question of how much health care should be available to our indigent population, and how should it be paid for. We need to face it honestly and squarely.

Fourth, I think we should provide for increased cost sharing by Medicare beneficiaries who can afford to pay. When they can, they ought to pick up a greater share of their own health care rather than expecting the Federal Government to do it.

Fifth, I think we should look very seriously at the concept of a voucher system for Medicare. I think that, too, can help moderate Federal expenditures.

Sixth, I think we need to work to assure that the Medicare prospective payment system which was introduced a year ago is equitably administered. It is a revolutionary change; it has changed health care in this country from bottom to top. It is producing good results, I think, from the Government's point of view, and I think, by and large, from the point of view of Medicare beneficiaries, but we have to make sure that program is administered properly and equitably.

A period of stability is needed, for one thing, to make sure that we are evaluating the results correctly, and we have to overcome administrative problems at the U.S. Department of Health and Human Services which are very costly and which are detracting seriously from the effectiveness of that program.

Seventh, I think we should get rid of inefficient bureaucratic restrictions and regulations which hamstring hospitals in their ability to deliver cost-effective health care.

And finally, we should develop and implement a coordinated national initiative to promote effective programs of preventing disease and enhancing wellness. Past efforts have missed the mark. I think we need to find out why and do it right, because in the long run that's going to do more for reducing Federal expenditures for health care than most anything else that we have.

DON'T LET DEFICIT REDUCTION SINGLE OUT HEALTH CARE

I think in health care, Senator Quayle, our overriding concern is that deficit reduction efforts not single out health care and make us—we don't want to be a sacred cow, but we don't want to be the goat either, please.

I seem to be awfully animalistic in this presentation today.

Senator **Quayle**. You want a lot of goats out there.

Mr. **Morris**. Yes, but we want to make sure that the legitimate health care needs of the people are met, and we are going to be rather insistent, I think, that whatever happens, we are still in a position to meet those legitimate needs of the people.

We think they need to be met economically and efficiently, drive out waste anywhere we can, get rid of unnecessary expenditures, but let's be honest about it. If we are going to deliver less health care to the people, then we need to admit that, from a national, Federal point of view. We need to face that. That takes courage. I have an idea that that's about where we are in the health care field.

Senator **Quayle**. Thank you very much for a very direct and thoughtful presentation.

[The prepared statement of Mr. Morris follows:]

TESTIMONY

SUBMITTED BY

LEIGH E. MORRIS

PRESIDENT, LA PORTE HOSPITAL, INC.

P.O. BOX 250

LA PORTE, INDIANA 46350-0250

BEFORE THE

SENATE BUDGET COMMITTEE FIELD HEARINGS

U.S. DISTRICT COURT HOUSE

SOUTH BEND, INDIANA

FEBRUARY 14, 1985

INTRODUCTION

The obvious need to reduce or eliminate the federal deficit makes a complete review of our national priorities necessary. Federal expenditures for health certainly should not be exempt from that review.

My comments today will be centered about four major components which I feel should be a part of that review:

1. Policy implications
2. Economic implications
3. Social implications
4. Political realities

I intend to make a strong case for honesty and forthrightness in dealing with critical health issues and I will suggest an unwillingness to compromise the basic health care needs of the American people by agreeing that health care expenditures should be cut more that other components of the federal budget.

I. Policy Implications

First, with respect to our national health policy, we need to confess at once that we have none.

There is no national health policy. That's a shocking, but factual statement. In a social, political and economic climate of abundance and growth, the lack of a cogent health policy was probably of little consequence. But today we are called upon to recognize the limitations which fiscal realities impose upon our nation. We cannot do all things for all people.

The lack of a national health policy becomes quickly apparent whenever there is a discussion about health care. There is no consensus about important basic issues which should be resolved before we attempt to make serious decisions which affect the health of the nation as well as the health of our citizenry

There is not time to go into all of these issues, so I've selected four:

1. Research
2. Special problems of the elderly
3. Prevention
4. Health care for the indigent

First, lets look at research, because it's a vital component of health and health care. Without effective research efforts, systems lose their vitality and progress grinds to a halt. As we've ratcheted down on health care expenditures, we've begun to erode research programs. Federal officials have made it clear they don't want to fund research efforts through Medicare as they have in the past and have indicated little concern about the future of health research.

Nowhere is the need for effective research more urgently apparent than in the special needs of the elderly. And no problem has greater implications insofar as health care expenditures is concerned.

Since 1900, average life expectancy has lengthened more than 50% -- from 49 then to 75 today. Richard Suzanow, an executive of the National Institute on Aging, has likened the situation of our elderly to "an 18th century map of Africa -- huge areas marked terra incognita.... There isn't that must data, and the quality of much of it is terrible."

The success in extending human life is confounding our fiscal problems in health care. The Policy Center On Aging at Brandeis University has documented the impact of the multiple and chronic health problems of the elderly on cost of providing care. Their studies indicate that persons over age 75 have per capita hospital spending more than 250% higher than those under age 65. Those 85 and over are 77% higher again. The federal government is currently providing over

$51 billion in payments and services for people over age 80 and that is expected to increase by another $34 billion in the next 15 years.

Prevention of disease should be a basic cornerstone of a national health policy. Study after study has shown the importance of prevention of disease as a key component of moderating health care costs and contributing to good health, but we as a nation have done little more than acknowledge the validity of the studies. We haven't invested in health education, prevention and early intervention even though we know they're as beneficial from a fiscal point of view as they are physiologically. A year or so ago the Secretary of Health and Human Services announced "bold new initiatives" in this area. Some specific efforts were begun, but they've largely petered out because we seem to lack commitment as a nation.

The final component of public health policy I want to explore is the need for articulation of a policy for health care for the indigent. For years, much of the health care for the indigent has been quietly, almost surreptitiously provided by hiding costs in medical education programs and by charging more to other patients. But today's fiscal realities are forcing us as a nation to realize that we can't continue that method. So what are we do do? Are we in favor of providing necessary health care to the indigent among us? If the answer is yes, then we must come to a realistic policy decision about how it's to be financed. If the answer is no, then let us be honest about it and face the consequences of turning our backs on the needy.

Are we prepared to face the policy question of whether health care should be rationed? For example, Kidney dialysis and open heart surgery are quite expensive, and the federal government pays for a goodly proportion of both these procedures. We could cut costs by restructuring their availability as has been done in Great Britain. Such a decision should be made honestly and openly. We must face the ethical problems created by health care rationing. they are human dilemmas which defy easy resolution. Let me illustrate by example:

A recent Wall Street Journal article contracted care for patients with kidney failure in the United States and in Great Britain. In our country about 250 people in every million can be treated for kidney failure; in Great Britain perhaps 40 in a million can be treated, so the care is rationed largely on the basis of age. If you're age 55, your chances of a kidney transplant or kidney dialysis would be poor if you're British. If you're 75, you would definitely not be treated and would most likely die.

Advances in technology are compounding the ethical problems created by rationing or limiting the availability of health care. Joint replacement, open heart surgery, organ replacement -- all these and more are readily available. Two questions defy easy answers:

1. Who shall have them?
2. Who shall pay?

Thus, the need for a national health policy.

II. Economic Implications

The second major area I'd like to explore is the economic implications which impact health care expenditures and the federal deficit.

The relationship between outlays of the federal government for Medicare and Medicaid and the total federal budget has been the subject of considerable debate and discussion. Is health care too great a portion of the total budget? What is the correct relationship between outlays for health and outlays for defense, for example. there is clearly no consensus.

Obviously, it is in the best interest of all concerned, especially the federal government, to see to it that the dollars spent on health care are spent wisely and well. some of the federal expenditures are not. for example, we've just recently created a vast new bureaucratic army called Peer Review Organizations or PROs. The enabling statute as passed in 1982, and after months of wallowing in God knows what, the new agency came to life with a budget for this fiscal year of $165 million and an army of employees (over 150 in Indiana alone). Now it's 1985 and the federal bureaucracy has been unable even to publish the rules and regulations under which these PROs are to operate. Consequently, they're floundering and dreaming up schemes on how we can entice elderly men and women to have such painful surgical procedures as Transurethral Resections and Hemhorroidectomies done on an outpatient basis so they (the PROs) can justify their existence.

Economic facts of life force us to face the issue of how much of our federal budget should be dedicated to providing for the health of our citizens, to be certain the dollars are spent wisely, and that the federal government doesn't detract from efficiency by unwise, poorly administered programs.

III. Social Implications

Third, let's look at social implications. We have prided ourselves on the universality of health care in this country. There are loud and proud proclamations about the fact that in this country it makes so difference whether you are Mrs. J. Gottracks Millionaire or Willy No-funds -- health care available to you is the same. That never was totally true, but the reality today is that it is becoming less true every day. We are moving toward a two-tiered system of health care in this country -- one for the "haves" and one for the Have nots". A few years ago I was in the Phillipines and visited several hospitals in Manilla. The contrast between health care for the poor and health care for the wealthy couldn't have been more vivid. The authorities I met with thought it peculiar that we Americans didn't make such sharp distinctions.

One of the saddest aspects of our drift into a two-tiered system of health care is that it seems to be happening by default and, to a certain extent, by deceit. This is true primarily because there is no planning. The issue of how health care should be provided and how it should be financed is being dealt with on an emotional rather than a rational basis.

One of the factors which we often seem to ignore is that many of the so-called costs of health care are, in fact, symptoms of social problems. The cost of care for premature babies born to unwed teenage mothers is actually a social not a medical cost.

There are social implications which stem from the graying of America. Clearly, older persons make up an increasing percentage of our population and they are subject to more illness and chronic disease, than other age groups. As indicated earlier, they are more expensive to care for. And because of changes in the fabric of most American families, there is less willingness to shoulder the burden of caring for our older relatives.

IV. Political Realities

Finally, a look at political realities is in order. The political realities are painful. As a nation, we've promised more than we seem to be able to deliver. Listen for a moment to the declarations which formed the framework for the government's role in health care:

President Truman in 1945 included these promises in what he called an "Economic Bill of Rights" for the American People:

> "The right to adequate medical care and the opportunity to achieve and enjoy good health. The right to adequate protection from the economic fears of sickness."

President Johnson in 1965:

> "(It is the nation's) first concern to assure the availability of and accessibility to the best health care for all Americans, regardless of age or geography or economic status."

President Nixon in 1974:

> "We will establish a new system which makes high quality health care available to every American in a dignified manner and at a price he can afford."

President Reagan in 1984:

> "The United States has the best quality health care in the world. I want to keep it the best, and make sure it's available and affordable to all Americans."

What are the facts? Health economist Jack Meyer of the American Enterprise Institute doesn't feel we've fulfilled the lofty political promises we've made and calls the situation a "bizarre mixture of generosity and stinginess." He notes that an estimated 35 million Americans have no health insurance at all, the Medicare program pays less than half the health care costs of the elderly and pays for almost no nursing home care. Only about half of the poor people in the United States are covered by Medicaid.

Now the political realities seem to be suggesting a further reduction in our national commitment to health. Perhaps we should. Perhaps we promised too much to the American people, but if we are going to retreat, let's do it openly and honestly. Let's not kid ourselves or the American people. We cannot meet the growing health care needs of an aging population with frozen or reduced revenue. By all means we can improve efficiency and eliminate waste whenever and wherever its found. But if we want significant savings, then we must have the political courage to agree to do less for fewer and fewer people.

SUMMARY AND CALL FOR ACTION

In view of the lack of articulated health policy and given the economic and social implications, and the stark political realities, I believe we must make some new commitments to health as we wrestle with the tough problem of dealing with the federal budget deficit.

1. Begin at once to formulate a realistic and understandable national health policy which can undergird present and future decision-making about health. We need to involve the best minds in this process, recognizing that human needs and fiscal realities must be rationalized.

2. Avoid simplistic approaches to moderating federal expenditures for health which create more problems than they solve. In my opinion, the proposed "freeze" on Medicare and Medicaid outlays would fall into this category. Such action would single out hospitals for a disproportionate cut and would violate commitments made by Congress and the U.S. Department of Health and Human Services when the Medicare Prospective Payment Program was enacted by failing to provide equitable reimbursement. A freeze in Medicare payments will almost assuredly result in serious impact on access-to-and quality-of-care problems.

3. Address directly the question of how much health care should be available to the nation's indigent population and determine how it should be paid for. Current proposals to "cap" medicaid expenditures and reduce financial support for graduate medical education can only - exacerbate this problem.

4. Provide for increased cost sharing by Medicare beneficiaries who are able to pay. This will help to moderate demand and will help to assure the availability of funds for those who can't afford to pay.

5. Determine the feasibility of a "voucher" system for Medicare beneficiaries which provides for a benefit package at least equal to the current Medicare benefits.

6. Work to assure that the Medicare Prospective Payment System is equitably administered. The program is new and hospitals across the country are working very hard to adjust to the new realities it has helped to create. The early indications are that it is producing almost precisely the results intended:

    1. Utilization of expensive inpatient services has declined dramatically.
    2. Rates of increase in health care costs have fallen sharply.

A period of stability is needed so that the new system can be fully and fairly implemented and the results evaluated. We must, however, overcome administrative problems at the U.S. Department of Health and Human Services and we must resolve some basic inequities and deal with the issue of reimbursement to hospital for capital costs.

7. Get rid of inefficient, bureaucratic restrictions and regulations which hamstring hospitals in their ability to deliver cost effective health care. For example, the current restriction preventing hospitals over 100 beds from exercising the "swing bed" concept to utilize empty beds for long term care patients.

8. Develop and implement a coordinated national initiative to promote effective programs of preventing disease and enhancing wellness. Past efforts have "missed the mark." Let's find out why and do it right this time.

An overriding concern is that deficit reduction efforts not single out health care or unduly impede efforts by health care providers to meet the legitimate health care needs of the American people. If that is to be the result of budget deficit reduction efforts, then Congress must be courageous enough to admit it publicly.

Virtually every health care provider I know understands the need for bringing about an equitable solution to the budget deficit problem.

I believe we all want to do our part. But I'm afraid you'll find us most unwilling to do more than that. It isn't that we don't want to cooperate. It's just our stubborn unwillingness to abandon our commitment to our patients. We don't want them to become pawns in a political exercise.

LEM:mew

2/12/85

Senator QUAYLE. I'm sorry I don't have time for questions, but I will read your testimonies in depth. I appreciate the thoughtfulness that went into each one of them. Believe me, it's helpful and I hope that the exchange has been mutually beneficial because this is a two-way street. We need to have the political support with the people as well as the political will to make those tough decisions to deal with this budget deficit, and the presentation that you've made in the way to go about it is certainly to be complimented.

Thank you very much.

At this point, I will make a part of the record statements that have been submitted to me by persons who wish their views on the budget known and who weren't able to testify in these hearings.

Thank you for attending this hearing and giving me your point of views which I will take back to Washington with me.

[Whereupon, at 3:26 p.m., the hearing was concluded.]

[The following statements were submitted for the record:]

Commission: LOUISE HUBBARD, *Chairman* · RONALD COHEN, *Vice Chairman* · JOHN REESE · DONALD KOVACH · ALBERT LEMAY

THE HOUSING AUTHORITY
of the City of South Bend, Indiana
501 South Scott Street
P. O. Box 4217
South Bend, Indiana 46634, Phone 284-9346

ALONZO WATSON
Executive Director

February 14, 1985

The Honorable Dan Quayle
United States Senate
524 Hart Office Building
Washington, D.C. 20510

Dear Senator Quayle:

Again this year, the proposed budget submitted by the Administration contains massive cuts in assisted housing programs. According to the latest information we have received, it seems that the proposed new budget authority for fiscal year 1986 is only one-twentieth of the actual fiscal year 1985 budget authority for HUD and other housing programs.

Although there is a well established need for additional subsidized housing, this budget contains no incremental increase to assisted housing programs.

It has been stated many times, even by officials of the Department of Housing and Urban Development, that ninety percent of public housing authorities are run in an efficient manner. This simply illustrates that most public housing authorities are attempting to do a cost effective job of providing decent, safe and sanitary housing for their clients.

In a time when our Nation is working extremely hard to come closer to balancing the budget, it is obvious that we have to establish priorities. However, it is also obvious that our Nation has an obligation to not only support programs for our mutual defense but also to support programs to promote the public welfare.

So often you hear the statement that we can not afford both butter and guns, and I feel that this is not the way we should be thinking. I feel that we should be considering the ratio of support for butter and guns. It does not seem realistic to me that we can support our defense production at close to 100 percent while continuing to reduce the support we give our civilian needs.

Realizing that you, as one of the leaders of our Nation, have an extremely hard job in attempting to make a decision as to what our priorities should be, I would simply like to point out my position on some of the issues that are critical to public housing.

I am attaching position papers that were prepared by the National Association of Housing and Redevelopment Officials (NAHRO). Each of these major issues is supported by The South Bend Housing Authority. I would like to make some specific comments regarding each position.

1. FINANCING OPERATIONS OF FEDERALLY ASSISTED PUBLIC HOUSING

It is impertative that public housing be funded at a 100 percent subsidy level. It seems that in recent years the industry figures have been more accurate than the Administration figures. Therefore, I support the figure of $1.4 billion dollars to properly fund the performance funding system (PFS).

The system must also make sure that it provides incentives for efficient management of our authorities. Legislation should be passed which will encourage authorities to generate other income as opposed to penalizing authorities for generating other income.

We should also implement regulations which encourage authorities, in a fair manner to reduce their vacancies. One way to accomplish this is to allow the authorities to share with HUD any income over a reasonably established occupancy rate.

2. COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM (CIAP)

Most of the savings that we generate under PFS are because of less than projected increases in utility costs, as well as energy conservation modernization that most authorities have implemented over the last few years. If we are not able to rehabilitate our developments, the cycle of deterioration in our public housing inventory will accelerate.

The amount of CIAP funding that we have received in previous years has not been adequate to make a major dent in the unmet modernization needs, but at least we have been able to decrease the rate of deterioration.

Therefore, it seems that we should keep the funding at $2 billion annually. In addition, we need to look very seriously at a program which standardizes the amount of funds that public housing authorities can expect on an annual basis for capital needs. This would allow us to do an efficient job of planning our improvement programs, and make better use of the money that we receive.

3. CHANGES IN FEDERAL TAX POLICIES

There is some confusion as to whether or not the bonds that finance the construction of public housing authority units will remain as tax exempt bonds. These tax exempt bonds have been a powerful tool in assisting the private sector and local government in revitalizing communities. They have also been used for preserving the existing structures.

Therefore, I must request that you make every effort to preserve the tax exempt status of these bonds. I also request that you use whatever resources you have to get the Internal Revenue Service to make an interpretation on whether the current bonds will remain tax exempt or not.

4. SECTION 8 EXISTING PROGRAM/HOUSING VOUCHER PROGRAM

The Section 8 Existing Program should continue to be funded at the fiscal year 1985 level. This program has proven to be an extremely successful program. It is also important that the administration fees of administering this type of program remain at a level that would allow us to do an efficient job.

We, therefore, encourage you to make sure that the administration fees are not reduced from the current level.

5. SALE OF PUBLIC HOUSING INVENTORY TO TENANTS

The concept of promoting homeownership opportunities for lower income persons is certainly a supportable concept by this housing authority. We currently have 100 units under a homeownership program for low income families.

As of this date, we have not been able to sell any of those units to the effected families. Therefore, we have some concern as to whether the current homeownership initiative is an honest initiative to provide housing ownership opportunities to low income families or is simply an attempt to reduce the subsidized inventory.

It would seem that any homeownership plan that is implemented should make sure that the existing rental inventory is not reduced. Therefore, I would suggest that any homeownership legislation should include a provision that any unit that is removed from the public housing stock will be replaced on a one-to-one basis with another unit. The replacement unit should be a physical unit and not simply a certificate or a voucher.

I want to thank you for the opportunity to outline some of my concerns to you. If there is any additional information or any additional help that I can provide, please let me know.

Sincerely,

Alonzo Watson
Executive Director

AW/jr

Attachment

SOUTH BEND PUBLIC TRANSPORTATION CORPORATION
901 East Northside Blvd., P.O. Box 1437
South Bend, IN 46624
Route & Schedule Information 233-2131
Business Office & Charter Service 232-9901

transpo

February 7, 1985

Senator Dan Quayle, Indiana
SH-524 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Quayle:

In your capacity as a member of the Senate Budget Committee, we know you will be giving serious consideration to the Administration's proposed budget, which includes plans to cut the federal transit aid program. The Administration request to end operating assistance to mass transit would have a prime impact on public transit systems across the nation.

As you know, Transpo provides service to the citizens of both South Bend and Mishawaka. This is accomplished though an annual operating budget of $5 million. If the Administration proposals were accepted in their current form, Transpo would suffer a loss of $1.2 million in federal operating assistance. This would also provoke the loss of $850,000 in state operating assistance, which is based on a two-thirds match of our federal allocation. The loss of these funds would decrease our operating budget by 41%. Such a loss would surely necessitate major service reductions.

Nationwide the proposed cuts represent a loss of 225,000 jobs and $9 billion in local business revenues. The availability of economical public transit will help to keep the current economic recovery going.

Although transit programs have already been cut by 28% since 1980, the public transit industry is willing to share in reducing the federal deficit, if action is equitable and across the board.

We urge you to oppose the Administration's proposed transit budget, and to support equity in budget reductions.

Sincerely,

Joseph ZaVisca mbm

Joseph ZaVisca
General Manager

cc: Senator Richard Lugar, Indiana
John Hiler, Third District, Indiana

ECONOMIC IMPACT OF THE FY 1986 BUDGET PROPOSALS ON THE STATE OF INDIANA

MONDAY, FEBRUARY 25, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Hammond, IN.

The committee met, pursuant to notice, at 2:35 p.m., at the Federal Building, Hammond, Indiana, Hon. Dan Quayle presiding.

Present: Senator Quayle.

Staff present: Greg Zoeller, legislative assistant.

OPENING STATEMENT OF SENATOR QUAYLE

Senator QUAYLE. I called this hearing in Hammond today, and the series of hearings I held around Indiana the week of February 11, to help me determine how I can best represent Indiana's interests in the debate now underway in Congress over the 1986 Federal budget.

Over the course of these Senate Budget Committee field hearings, which have been formally authorized by Chairman Pete V. Domenici, Republican of New Mexico, I received testimony from over 70 witnesses around the State, and also written statements for the record. The group of witnesses offering me their perspectives here today shows the range of viewpoints I have been hearing from each and every stop.

1984 BANNER YEAR FOR NATION'S ECONOMY

First, there is the good news. Last month, we learned that 1984 was a banner year for our Nation's economy. Inflation last year was at its lowest level since 1967, and it has stabilized below 4 percent. Even more impressive, the gross national product grew at its fastest clip since 1951. This rapid growth has created over 7 million jobs in the past 2 years.

To sustain economic growth here and across our Nation, I am convinced that we must work to reduce the Federal deficit. Last year, Congress defied the cynics when it passed the $182 billion Deficit Reduction Act of 1984, in an election year. This year, I believe Congress must improve on that downpayment.

In my opinion, the goal of reducing the Federal budget by $50 billion in fiscal year 1986 is a good one. That would mean cutting the Federal deficit from its current level, over 5 percent of GNP, to about 4 percent of GNP. Congress should also act to make further inroads on the deficit in the following 2 years, so that it is reduced to 3 percent of GNP in fiscal year 1987, and 2 percent of GNP in fiscal year 1988.

CUTTING SPENDING ONLY COURSE TO FOLLOW

The question facing all of us today is starkly simple: how should we tackle the vital task of reducing the Federal deficit?

We are at a fork in the road. In the past, all too often, Congress took the route of raising taxes to bring spending more in line with revenues. It is an attractive path, however, only to the shortsighted who cannot see where it leads. I am convinced that the necessary and inevitable result of increasing the Federal tax burden would be to bog our economy down and retard its growth.

The road we should follow is the one almost never traveled before the election of President Reagan in 1980. We need to cut Federal spending. It is the only way to go in order to keep our economy creating the jobs and opportunities that can benefit all Americans.

The choice we should and must make is to spurn a tax increase and pursue deficit reduction instead by cutting the growth in Federal spending across the board.

It is economically essential that we cut the growth of spending by the Federal Government, but we must be sure the reductions are made fairly.

We cannot afford to follow any other course. Just as the perils of runaway deficits are self-evident, the benefits of stemming the flow of red ink should be obvious.

SPENDING CUTS COULD BRING INTEREST RATES DOWN

Experts have estimated that spending cuts of the magnitude of $50 billion in fiscal year 1986 could serve to bring interest rates down by 2 percentage points. More affordable loans would help almost every sector and individual, including homeowners, small businessmen and especially farmers approaching planting season. What is more, lower interest rates would yield more favorable terms for our foreign trade, and this would enable all Hoosiers—but particularly our steelworkers and farmers—to compete better in the world economy.

These hearings will come to order.

This is my 9th public hearing I have had around the State of Indiana, to get public testimony from individuals concerning the budget that has been recommended by the administration.

I have the privilege of serving on the Senate Budget Committee, and of course, we are going to be dealing with these recommendations. I can assure you that there will be some adjustments, as there always are, through the congressional process.

What I am really looking forward to is a lot of ideas on how we can save money, ideas on how we can cut spending increases that have been projected, how we can be perhaps more efficient, how we can make sense out of this budget matter that we have. I really believe, quite strongly, in the representative democracy that from time to time those that have the honor and privilege of serving the people ought to take time to hear from the people themselves.

So today we have got a witness list, and leading the witnesses will be two honorable mayors, Mayor Thomas M. McDermott, mayor of Hammond, and Richard Gordon Hatcher, the mayor of Gary.

If those two would come forward—I see they are sitting there together.

Mayor McDermott since you are the host, suppose we allow the visitor to go first.

Mayor **McDermott**. I will go first.

Senator **Quayle**. The host mayor will proceed first.

Mayor McDermott, since you are the host, suppose we allow the know that these budget requests will be certainly felt in the city of Hammond. We look forward to your testimony, and I appreciate your taking the time, and extending us the opportunity and availability to come here today to hear firsthand what the budget requests are going to do to the City of Hammond.

So with that, Mayor McDermott, would you please proceed?

STATEMENT OF HON. THOMAS M. McDERMOTT, MAYOR, HAMMOND, IN

Mayor **McDermott**. First of all, let me thank you, Dan, for coming to our fine city. We are very proud to have the junior Senator from the State of Indiana here.

We welcome you. We welcome the remarks that obviously the many talented people here are going to be putting forth this afternoon.

I would first like to thank Senator Quayle and his staff for the opportunity to respond to the Reagan administration's proposed budget for 1986. The hearings that have been held throughout the State of Indiana are perhaps the best method for ascertaining opinions concerning the challenge that the President has set before us. I am sure those opinions reflect the diversity of life, and life styles that has made Indiana one of the truly great States in which to live.

PRESIDENT'S INITIATIVE TO DEESCALATE SPENDING NECESSARY

As mayor of Hammond, I am pleased to present the following comments and opinions concerning the President's 1986 budget. After careful review of programs targeted for elimination, major freezes, and program reforms, I have concluded that the President's initiative to deescalate Federal spending in order to control increasing Federal deficits is necessary in order to continue the economic stability and growth that he has achieved over the past 4 years.

The control mechanisms offered by the President through his budget will insure that inflation, interest rates, and unemployment continue to decline, thus offering greater stability than any Federal subsidy could ever achieve. While this initiative will not be popular among municipalities that have become dependent upon Federal funding, my administration is prepared to accept that challenge and prepare for greater levels of self-sufficiency.

During the first year in office, my attention was centered on rebuilding a firm foundation for growth through greater fiscal responsibility. As a result, my administration is prepared to accept termination of general revenue funds, mass transit subsidies and other Federal credit programs. While this position calls for continued sacrifice on all levels of my administration, I remain cognizant of eminent new federalism mandates, and stand ready to achieve even greater progress in that area.

The major concern of my administration in relation to the other proposed reform measures centers around out local efforts to stimulate economic revitalization and the creation and retention of jobs. Hammond and northwest Indiana has not experienced the decline in unemployment and growth of personal income that other areas of the country have. Our unemployment rates remain twice the national average, and while we have begun to rebound, our task remains formidable. Because of this situation, we are experiencing a climate of disinvestment, and migration of business and industry to areas where investments are more attractive and have less risk.

RESTRUCTURE UDAG PROGRAMS, SBA, AND EDA

It is my opinion that the Urban Development Action Grant Program, the Small Business Administration and the Economic Development Administration all targeted for termination could be restructured in a manner that would make them self-sufficient within 2 years.

Specifically, the UDAG Program could be restructured so that the recapture of funds are returned to the Federal Government, and not the local unit of government. This structure would allow developers access to the UDAG incentives for investment in distressed areas, while not furthering increases in Federal spending. The UDAG Program would become a revolving loan pool, and would be self-sufficient within 2 years.

In addition, the Small Business Administration and Economic Development Administration would likewise work toward self-sufficiency by offering more loan guarantees or offering loan assistance structured in such a way that the packages could be sold as commercial paper on the secondary investment market.

The preceding suggestions promote compromise over termination, and at the same time offer additional self-sufficient programs which older urban cities, such as Hammond, require before they can regain the economic health and vibrance necessary for reinvestment.

ATTITUDE OF FEDERAL GOVERNMENT IS THAT OF FISCAL RESPONSIBILITY

The attitude of the Federal Government, for the first time in many years, is that of fiscal responsibility. President Reagan has received bipartisan support for many of his proposed budget reforms. My administration supports the auspices of the Reagan administration, and seeks Federal assistance only through sound self-sufficient programs.

The bottom line, Senator Quayle, is that on a daily basis the mayors of northwest Indiana do walk through groups of people that need work. We are very aware of these people. We all want to put them back to work, but we have, I think, become educated to the fact that the cities, the State governments, the Federal Government, can no longer be the employer of the people, that we have to create an environment that is necessary for business and the investment through UDAG, and through programs which have been successful.

The administration has called for enterprise zones on the national level, and at the same time has talked about taking away the programs that have been successful in these areas. I think the city of Hammond, and the city of Gary, and many municipalities around here stand behind the programs that have been successful in creating economic development.

My major concern is that none of us want to drop in level of protection, we want to be a country of strength, we want to be a company of freedom, but like a business, I think it is time that we expect the military to run its business in the same manner, and once and for all get in line with what is happening in the rest of the eccnomy.

Again, Senator Quayle, I thank you for affording me the opportunity to address you this afternoon, and I look forward to your continued support in making northwest Indiana a place with quality of life once again.

Thank you.

Senator **Quayle**. I thank you. I certainly appreciate your straight forward testimony, and in my opinion, a very courageous effort in saying that there are programs you certainly would like to see continued, but are willing to make the sacrifice for overall reduction in spending for economic growth, and hopefully, the productivity of job opportunities. It is not going to be easy, but I can tell you I certainly appreciate that.

Our next witness is the honorable mayor, Richard Gordon Hatcher from the city of Gary.

Mayor?

STATEMENT OF HON. RICHARD GORDON HATCHER, MAYOR, GARY, IN

Mayor **Hatcher**. Thank you, Senator, and first of all, I would like to express my appreciation to you for giving all of us an opportunity to at least put our 2 cents in regarding the very important, crucial decisions that are going to be made over the next few weeks, and the next few months, and I would too, in most instances, be in total accord with my fellow mayor from Hammond, but in this particular instance I suspect that we may have slightly different views.

WHITE HOUSE BUDGET NOT THE BEST

I would like to thank Indiana's junior Senator, the Honorable Dan Quayle, and his entire committee for providing an opportunity to voice our concerns regarding the proposed fiscal year 1986 budget. I know that the remarks of myself and others scheduled for this afternoon come at a time when our Nation's economy is shackled with a recordbreaking deficit. But I am hopeful that, through the course of these proceedings, each of you distinguished members of Congress will conclude for yourselves, and for this country, that the budget response offered by the White House is not the best one, nor the only one. And the best is what I believe we all want for the American people; may I hasten to add, that only the best is what the people deserve, and have a right to expect from their Government.

The vast majority of American people live in our Nation's cities. Our cities and towns are the centers of our industrial, commercial, and social spheres. So if we are to address the needs of the people, we must necessarily face the needs of the cities. Central to the budget dilemma is the future of the American economy. While inflation has subsided, we must find a way to reduce the expanding deficit.

CUTS WILL FORCE CITIES INTO GREATER DEBT

The irony is that the proposed budget cuts will in no real way diminish the deficit. If these domestic cuts are in fact implemented, then cities throughout this Nation will be forced into either greater debt, or the elimination of essential services, such as public safety, sanitation, transportation, and public education.

HUGE INDUSTRIAL COMPLEXES STRUGGLING

The huge industrial complexes that boosted the gross national product, and whose labor-intensive structure supported and maintained thousands of communities in this country, today are groping to respond to the intrusion of foreign imports and a technological revolution. As these companies struggle from becoming industrial dinosaurs, they shut down obsolete plants, increase automated production, and, in the process, displace thousands of American workers; workers who had scrimped and saved to buy a home; workers who were proud to send their children to college, but frankly do not know if financially they can keep them in school.

For those who today are fortunate enough to be employed, they find that no matter how frugal their budgets, they simply do not have enough money to pay the utilities, the mortgage, the car note, and the bills. And those who at best are underemployed, or chronically unemployed, can only shake their heads in wonder when they read and hear of an economic recovery.

LOCAL OFFICIALS TREAD ECONOMIC BATTLEGROUND

As that level of government that is closest to the people, local officials tread an economic battleground every day. The disgruntled and the distraught may not be able to reach Capitol Hill, the White House, or even the Statehouse, but they do find a way to city hall.

And once in city hall, they graphically describe their plight, and emphatically demand that something must be done. When people ask for help, they do not always know exactly how or what can be done. But they do know they are hurting, and appealing to their Government. They appeal to Government because they believe it is of, for, and by the people.

Gary, IN, is a city that is a classic case study of the problems confronting local government. From 1906, the year of Gary's founding, and continuing for more than 50 years, the growth of Gary's economy mirrored that of the Nation.

Steel producers, and steel aftermarkets flourished. Job opportunities were plentiful. A decent wage could be earned, and a few of life's comforts could be had, for those whose formal education concluded with a high school diploma. United States Steel reached a peak employment level in 1974, with about 32,000 jobs. Aftermarkets, such as National Can and Gary Screw and Bolt, reached respective employment peaks also.

STEADY REDUCTION OF EMPLOYMENT EXPERIENCED

But earlier, in the 1960's, with the introduction of computer technology, and the first significant indications of foreign steel production, our once labor-intensive economy began evolving into a capital-intensive one. We experienced a steady reduction of employment levels in every industry sector. National Can's work force had shrunk to fewer than 100 at the time of the plant's closing. By 1980, United States Steel's work force dropped to 18,817, and is expected to level off at approximately 13,000 workers in the next few years.

In the last decade alone, personnel reductions at United States Steel have meant for Gary's economy a loss of more than 20,000 jobs. I hasten to add that the problems experienced by United States Steel are not unique; they are the same problems that plague other steel producers throughout the country, and most importantly in the industrial hub of northwest Indiana. Inland, LTV, Republic, and other steel producers have experienced similar layoffs.

The sad result is that, in Lake County, more than 65,000 manufacturing jobs have been lost during this same decade. Gary's 57,281-strong labor force comprises about 27 percent of Lake County's total work force of 212,700. Because steel manufacturers have not experienced the swift economic recovery of other industries, our current unemployment rates register at 21.2 percent in Gary, and 14.1 percent in Lake County.

IDENTIFY ALTERNATIVE EMPLOYMENT OPPORTUNITIES

When a mayor knows that more than 20,000 jobs have been lost in his city, then alternative employment opportunities must be identified. We recognized that, in terms of economic growth, we should focus on the development of small businesses in particular, and the service industry in general. Our entrepreneur program, operating under the auspices of the Gary Manpower Administration, showed local residents the advantages of identifying market needs, and then providing a range of services to meet those needs. Our approach to the development of a "cottage industry" led to job-training programs designed to equip entrepreneurs with basic business skills that would enhance their chances of success, and gainful employment.

But today our Nation's Manpower Administration is no longer available to retrain workers. Manpower has already fallen victim to earlier budget cuts. We have tried to adjust to Manpower's demise, just as we have tried to adjust to other Federal reductions.

So in 1983, 30 percent of our Nation's cities raised property taxes, 18 percent sales taxes, 24 percent business taxes, 39 percent fees and/or user charges, and more than half of our cities, some 53 percent, have now raised sewer charges.

MUNICIPAL EMPLOYMENT REDUCED

Since 1981, a steady reduction in municipal employment has been implemented. Seasonal and part-time employees were the first to be affected. In 1980, for example, Gary provided its youth with 3,387 summer jobs. By summer 1984, a 26 percent reduction in summer jobs translated into almost 1,000 fewer jobs for teens. Our Park Department's part-time and seasonal staff went from 200 employees in 1980 to only 50 by 1984. But staff reductions for part-time and seasonal employees were simply not enough. Reluctantly, but necessarily, full-time employees had to be affected.

Since 1980, Gary's municipal workforce has dropped about 60 percent. Between 1980 and 1984 we lost 1,591 jobs. The most severe reduction during this 4-year period came less than 2 years ago.

In July of 1983, an overall 20 percent reduction in Gary's municipal staffing displaced approximately 700 employees. The cuts, let me assure you, are just as painful today as they were almost 2 years ago. Those workers fortunate enough to remain in a job today are performing more functions, assuming more duties, in short, doing more work with fewer resources, than 2 years ago.

NO PAY RAISE FOR MUNICIPAL EMPLOYEES

Moreover, Gary municipal employees have not received a pay increase as they have assumed these greater levels of responsibility. It is uncertain just how long people working in 1985 at 1983 wages can be expected to maintain their family and household obligations. For 2 consecutive years, our employees have not received a pay raise at all. I do not believe that same kind of statement can be accurately made with regard to Federal employees.

But at least these employees are earning a wage, however frugal. Yet for thousands of other Gary residents there are no paychecks; the unemployment benefits have expired; the likelihood of being called back to their former jobs is remote; and the hopes of finding alternative employment is dim.

Many families who can no longer afford a car turn to public transportation. As presently proposed in the administration's budget, it is an option thousands of families will lose. If the city of Gary loses revenue-sharing dollars, utilities, supportive services, such as civilian police employees, will also be lost.

DEMISE OF UDAG'S ARE MOST IRONIC

If the purpose of Urban Development Action Grants, or UDAG's, is to make certain redevelopment programs would return a vitality to our cities, then that noble goal will be lost. Gary, like other urban areas, is surrounded by a profusion of suburban shopping malls. If plans for a new downtown mall are to reach fruition, then the UDAG assistance, which would mean between $4 and $6 million to a $26 million project, will be lost.

While all of the proposed domestic cuts are tragic signals to Mayors and other locally-elected officials, the demise of UDAG's are the most ironic. It is the present administration which has called for a public-private partnership to save our cities. The UDAG program represents just that. Now is not a time to reject a program when local projects already begun are now in a position to secure private investment dollars.

NATION'S ECONOMIC CRISIS AFFECTS MANY PEOPLE

The unemployed, the underemployed, the working poor, the struggling middle class, who turn to cities for economic relief, have all felt the brunt of our Nation's economic crisis. They have suffered; they have endured, and even now are still trying to hold on. But it is hard to hold on when the little that is left is about to be snatched away. It is difficult to believe your country cares about you, when you read in the paper, or hear on television that proposed domestic spending cuts will be further reduced, while defense spending continues to increase.

In the world's wealthiest Nation, hunger hits our children. The homeless are unable to receive the benefits to which they are entitled, because they have no permanent address. The elderly wonder if the golden years are golden at all, when fixed incomes are burdened with increasing Medicare costs, a shrinking supply of subsidized housing and soaring utility bills.

POLICIES BOTH DAMAGING AND DEBILITATING

The effect of these policies is both damaging and debilitating. They increase economic disparities between the rich and the poor, black and white, male and female. These policies raise the tensions of racial, sexual, and class distinctions. In short, instead of bringing us together, their effect is to tear us apart.

This country cannot afford to become two America's, one for the well off, and another for the rest of the country. Our people deserve to live in cities and towns fully able to provide the thousand and one services for which they were originally formed; safe communities, sanitary and sound dwellings, public education by which skills acquired are marketable commodities, whether in the public or the private sector.

General revenue sharing, community development block grants, Urban Development Action Grants, student loans, Medicare and Medicaid, aid to families with dependent children, the Small Business Administration, were all initiated to meet the needs of our citizens. Their availability has made the difference in millions of lives. Their absence could mean the destruction of lives.

These programs are by no means Federal handouts, as some have tried to describe them. On the contrary, I view them as a direct return to the people, on the tax dollars sent to Washington with every paycheck. That is no shame; that is no dishonor; it is simply a government working for the people.

Thank you. [Applause.]

DEFENSE PART OF DEFICIT REDUCTION PACKAGE

Senator **Quayle**. I would ask the audience to refrain from any kind of overt expression of appreciation or displeasure. We are trying to get information, and these expressions are going to serve to be disruptive, if we cannot have regular order.

First of all these cuts are going to be across the board. We are not going to leave defense out. Defense is a part of this deficit reduction package, just like nondefense.

KEEP ECONOMIC DEVELOPMENT PROGRAMS

I hear from both of you that your primary concern is keeping those programs, like UDAG, EDA, Small Business, those are the ones that you can use directly with Economic Development, and appear to be perhaps more important than some of the others. Other programs like revenue sharing, or the mass transit, I do not know if Mayor McDermott was specifically saying that he would be willing to forgo that.

Am I correct in that reading, Mayor Hatcher, of your statement? I know maybe you do not want to offer any programs up on the auction block, and I know where you are coming from, but are those the ones that seem to be the most important in northwest Indiana, and to the city of Gary?

Mayor **Hatcher**. Senator, on the contrary, I would offer a program up on the auction block, this massive defense spending. I mean, I would be happy to offer that. [Applause.]

Senator **Quayle**. I really have to ask the audience not to do that. We are trying to have an expression, an exchange of ideas here, and it is very disconcerting to the mayor and to myself.

Mayor **Hatcher**. Let me try to respond.

Senator **Quayle**. In offering programs up on the auction block, are you talking about programs you are currently receiving? Everyone is for cutting the other guy's program. That is why I was interested in Mayor McDermott's ideas, and the particular programs he is receiving, ones he is willing to put up on the auction block. I am just trying to get a priority as far as the revenue sharing, the grants, as opposed to the ones tagged with specific objectives.

PROGRAMS DIRECTLY AFFECTING CITIES CRITICAL

Mayor **Hatcher**. Let me try to respond to your question with this qualification, if I can, that with regard to programs such as food stamps, programs that address the whole issue of education, and programs that help our senior citizens, and health programs, I am putting those aside, because those are not programs that are directly administered by the cities, and if you get into programs that directly affect the cities, then I would say that general revenue sharing is a very critical program to me, community development, block grants, is a very important program to me, UDAG, that is a very important program, it is the program that gives me an opportunity to generate more jobs for the people, and try to fill the void that is there in that regard.

Now, EDA, that has been the one, perhaps the one place in the Government, where if you had a hot private prospect, somebody who is interested in investing money in your city, that you could get the other pieces necessary to put that together and make that package work—so EDA is very, very important, and many of the programs that EDA operates are important to us.

I would say that if I were listing a group of the four or five programs that the city directly accesses, then those would be the ones I would list, I would list the general revenue sharing, I would list UDAG, I would list Community Development Block Grants, I would list the whole periphery, the whole group of programs that EDA provides, and probably if there was one more program in there that I guess would be most helpful, it would be those programs that deal with the whole question of transportation.

If you cut, if you eliminate, for example, operating subsidies for transportation, in our city I think you will find the same thing that has occurred in just about every other city in the country. The reason most local governments took over their transportation system was that the private sector found that that was not a profitmaking operation, it was not something that could be operated, you know, as a profitmaking operation.

What you would do by eliminating operating subsidies for our transportation system is you would quite likely for us to eliminate that system, we just could not afford the system, we could not afford to operate the system, because it does not produce sufficient revenues, to cover, you know, all of its operating costs, and we are not talking about profits, we are just saying, "break even," the level of break even.

Yet, what are people going to do if they do not have a mass transit system? They cannot afford a car, they cannot afford an automobile, they need a mass transit system.

PUT PROGRAMS INTO A SUPER BLOCK GRANT

Senator **Quayle**. Let me ask a question of each of you.

Mayor Hatcher, let us take those programs, revenue sharing, UDAG, Community Development Grants, EDA. You put mass transit in there, the noncredit, direct noncredit program, direct income.

What about the idea of having a sort of super block grants of those programs? This has been discussed in the past. Take them all in there and say, "OK, here is what we are doing for our States and local communities."

These are all worthwhile ideas. Revenue sharing is the most flexible, and probably the categorical grants would be probably the least flexible. How about tying them in a knot and saying, "Put them all in there."

We can argue about the figures, but from a philosophical pragmatic point, is putting them in a large block grant a workable solution.

Mayor **McDermott**. Senator, I think that would be outstanding. That would obviously give both the mayors and the legislators direction of where they want to take their goals, and where their needs are. I think Mayor Hatcher's and my goals are ultimately the same, to put everybody, and everything in our communities that want to work.

Obviously, our differences are in the manner in which we want to get them. I feel that the best way, and I am sure Mayor Hatcher does also, is that it is through the cooperation of public and private entities working together to put those people back to work.

If the dollars came in one gross amount, and gave you the discretion over where to put those dollars, whether you wanted to build marinas, or transit systems, that would obviously be a great benefit to the mayors of the communities, and it would be Utopia, as far as I am concerned.

Senator QUAYLE. Mayor Hatcher?

SUPER BLOCK GRANTS NOT A NEW IDEA

Mayor HATCHER. Yes. You know, I have been mayor for 17 years, and I think I have seen everything; I do not think there is anything new under the Sun. I think I have seen it all.

I remember just a few years ago, when we had a very large number of Federal grant programs, and it numbered into the hundreds, and so forth, and as I recall, at the time the idea of developing these major block grants, you know, in community development, and in each of the major areas, that was the idea then, the idea of being much more efficient, and saying, "here is a block of money for this particular area. Now, you figure out within the context of that what the priorities are."

STATE AND LOCAL GOVERNMENTS WOULD DECIDE PRIORITIES

The idea was that we are going to give the States, and the local governments, more decisionmaking authority in terms of what they do with the moneys that they have. The problem about that, I agree with Mayor McDermott, that is a great approach—I mean, in theory, that is a great approach. But the problem is, however, that along with this kind of consolidation of grants and programs came these incredible reductions in the number of dollars available.

So if we were to, let us say, take it one step further, as you have just suggested, and say, "we are going to have a super fund, or a super super block grant, and out of that we are going to allow the States, and we are going to allow the local governments to exercise their own judgment, their best judgment, as to what are the priority items, that would make a lot of sense, unless you are talking about another major cut in the number of dollars.

It is great having the authority to make 100 percent of the decisions, if you are not making decisions on 100 percent of nothing—I mean, of the amounts, that is the problem.

PEOPLE NEED BASIC PROTECTION

So I would say that your idea could be an excellent idea, it could be an idea that could really work, and could give local communities some judgment and some discretion. I would say that you would have to build into that, as we should have built into these block grant programs, basic protection. You have to protect peoples' civil rights, you have to protect people against inappropriate use of those funds.

We have to insist, or you build in some kind of mechanism that would say, "you cannot take this money and go out and build golf courses, when you have people starving that need the money." You would have to build in those kinds of protections.

RETURNING DOLLARS TO LOCAL COMMUNITIES MORE EFFICIENT

But, yes, I think it would be a much more efficient way to—it almost approaches what people have called, not revenue sharing, but returning—in other words, returning dollars to the local communities, and letting them make judgments about those dollars. It could be much more efficient. Obviously it would eliminate a lot of administration, duplication in terms of administration of programs.

I would just say one other thing, very quickly, and that would just be that I do not know if your economy, or any economy, has done a study of what has happened over the last few years, since we have gone—we moved away from the idea of grants coming directly to the local communities, to cities, and we are funneling many of the grants through the State government.

I do not know if you have done any study to ascertain how efficient or nonefficient that is.

On the face of it, I would assume you are talking about some duplication in administration, and I do not know what that means in terms of dollars. It may not be a significant amount, but that would be something to look at, especially if you are thinking about this kind of super block grant approach.

SUPER BLOCK GRANT APPROACH BETTER FOR INDIANA

Senator **Quayle**. Yes. Now, on the super block grant approach, you would probably have some automatic passthrough to the local communities, so the States do not get involved, insofar as a lot of administration. There have not been a lot of studies, because the switch took place back a few years down in Indianapolis with the idea that any of the administration costs could be done perhaps more effectively there, than, the Department of Labor, in Chicago or Washington. In any case, I think at least my conceptual thinking is that it would be passed through, and there would be qualifications.

Also, being parochial for a moment, I think Indiana would probably fare better in that kind of approach overall, and I think northwest Indiana probably would, too, because right now we are still 46th in getting our fair share of money. We have come from 49th to 46th, in getting our fair share of money.

A lot of people say to me, "you know, these Federal programs are going to other places, Indiana does not get its fair share." I say, "OK, fine, I agree."

As far as really looking at it on a State by State basis, Indiana, because we have not come that dependent on the Government, is not going to be hurt on a proportional basis as, say, for example, New York. Surprisingly, Alaska gets a lot more than Indiana.

I am interested in your response because, you have to put a few caveats on there. Basic civil rights, and things of that sort, go without saying, but I think what you are saying is, "OK, from my point of view I would like to have the protective programs that are there, and probably it is easier for me right now to protect the programs, since they are categorical programs, rather than if they are allotted. Then there is a target and there is a reluctance from a political point of view of getting support for the super block grants, with the fear that the objective is to put these things into some sort of a big block grant, making it easier to cut."

TARGET FUNDS TO AREAS OF GREATEST NEED

Mayor **Hatcher**. I think that is certainly one of them, and it is based upon a tangible and real experience. That is, in fact what happened with regard to the creation of the major block grant programs, not all of them, but that certainly has occurred in the case of some of them, where you have the block grant, and you just have a percentage reduction over a dollar figure that is simply lopped off, and there you are, you have got more decisionmaking authority over less, you know, or fewer dollars.

The other thing that I think, and this is something that it seems to me we have to keep in mind as we talk about all of these programs, and what the appropriate role of the Federal Government is, in the final analysis I happen to think that the Federal Government ought to help people who need help.

I know that does not sound very profound, but I do not think that the Federal Government ought to set up simply a formula that says, "everybody gets some," because everyone does not need some.

I mean, you just made the example of Alaska. I think that what we have to do is to build into any program, whether you talk about a single super block grant approach, or the current approach, or any other approach, you have to build in a way of targeting the funds to the areas of the people who are in the greatest need.

I know politically that that is a tough proposition, because as a general proposition the people who are paying the most in the way of taxes are saying, "hey, why should all of the money go to people who are not paying the taxes, or, you know, are not paying as much taxes as we are paying, and we do not get any of that."

So that is a tough political proposition, but I think in terms of efficiency, and really helping, that unless we build into the process a way of targeting to areas of need—if you talk about this area with a 15 percent unemployment rate, and you say, "well, we have got this program to help people," but the problem is it is not going just to Lake County or Northwest Indiana, it is also going to go to Arlington, VA, where maybe the unemployment rate is 1 percent, if that.

That to me is a tremendous waste of taxpayers' dollars, to do that, and we ought to focus those dollars on the areas both geographically speaking and in terms of the demographics of the people. We ought to focus on those areas of greatest need.

Senator **Quayle**. Mayor McDermott?

TIE DOLLAR TO NEED AND ECONOMIC DEVELOPMENT

Mayor **McDermott**. Mayor Hatcher has just answered the reason I am opposed to general revenue sharing that is based on many cities throughout the country that are close to full employment, or exceed full employment, and I think the dollar should be tied directly to need and economic development, and that is the way we are going to customarily handle this question, if we continue to go the ways of the past.

I saw, in my city, when we took over, that the funds were used primarily to pass along pay increases, or to pay the fuel bills, or whatever else was needed at that time, and what that was was a short-term solution, that eventually would have to catch up with anybody using it in that manner. That in a city today we are much more efficient, we can live without the funds because we have built our planning around the dollars we are going to receive from our tax revenues and other fees, and therefore we are going to be a community that eventually, if those funds are there, can use them in terms of economic development, so we can put our people back to work in real jobs.

And for that purpose, for that reason, that is why I am opposed to the system as it exists today, that it gives to cities that do not necessarily need it, back to Alaska, and other places, and it is just creating a problem, it is competing with our bankers' dollars, which is driving up interest rates, supposedly, and it makes it much more difficult to bring business into our area.

TARGET GENERAL REVENUE SHARING FUNDS

Mayor HATCHER. Can I just say one other thing quickly? Because I do agree with Mayor McDermott, not about his previous programs not working, I think they did work, and I think a lot of people were helped, and I think there is something to be said for temporarily helping someone, until they can help themselves permanently.

I think there is a lot to be said for that, but I do agree with him, that in the case of general revenue sharing, that a lot of that money goes to communities, goes to areas where there really is no clearly demonstrated need.

As you know, general revenue sharing does have a formula that determines how much a community gets, but I certainly would not be opposed to the idea of taking a program such as general revenue sharing, modifying it so that again there is targeting of those funds to go to the areas where the need is greatest, and that you do not have this kind of blanket, you know, a little for everybody, and in most cases no one gets enough.

I would certainly agree with him in that regard, not to eliminate the program, but to modify it so that it is targeted to the areas where the need is the greatest.

Senator QUAYLE. We did that on the last job bill we had in 1982, and we also did that on APA Title II, we took and targeted—in fact, part of the formula is the economic disadvantage, and to figure that out, and to get it into the areas of need. I think if you look at it on a philosophical basis of fundamental Federal purpose, this certainly would go to those who need it the most, at the bottom end of the ladder, and that certainly is a worthwhile idea.

Thank you both, Mayor McDermott and Mayor Hatcher.

Next we have a panel of Joseph T. Morrow, chairman of the board, Mercantile National Bank of Indiana; Earl S. Thompson, director, State and regional public affairs, Inland Steel CO, East Chicago; Dr. Leslie P. Singer, professor of economics, Indiana University.

A **Spectator**. What I am referring to, we have a new Attorney General in Washington, DC. I would like you to tell him to get the Justice Department to come to Lake County and fight this crime and corruption that has been going on for 50 years, and this is why the people in the United States put Reagan back in office, because of this corruption, in stealing the Federal funds, and so forth.

Senator **Quayle**. All right, sir, thank you.

We have to continue with these hearings.

First on my list is Mr. Joseph Morrow.

Would you proceed with your statement, Mr. Morrow?

STATEMENT OF JOSEPH T. MORROW, CHAIRMAN OF THE BOARD, MERCANTILE NATIONAL BANK OF INDIANA, HAMMOND, IN

Mr. **Morrow**. I am Joseph T. Morrow, I am a lawyer and a banker. My office address is 5243 Hohman Avenue, Hammond, IN 46320. My testimony will deal with recommending the deficit be cut, and that taxes not be increased to accomplish that objective.

CUT THE DEFICIT

While our country has many obvious social needs and an ongoing requirement for spending in terms of a defense budget, day by day it is becoming increasingly clear that we cannot continue to have the huge budget deficits that have existed in recent years. The huge deficits and the interest on past deficits are leading us to a financial Armageddon.

The Reagan administration has been severely criticized for its cuts in social spending. The fact of the matter is that there have been no real spending cuts during the Reagan administration or any recent administration. Deficits have piled up year after year. The real issue has been how much the growth of spending is to be restricted. Our country cannot continue to permit this practice to exist if we are to maintain our high standard of living.

The bottom line as far as my comments here today are concerned is that the Government must move as promptly as possible to the point of actually balancing the budget. It may be impossible for Congress to balance the current budget, due to political as well as economic considerations. The country may be unable to withstand the resultant pressure that type of economic measure would create in a 1-year period; however, if Congress does not actually balance the budget this year, and it will not, then a large dent must be made in the deficit. The cut this time must be much larger than the Congress has been willing to undertake in the past few years.

It is my opinion that there will be some major paybacks for a cut in the deficit. The tremendous Government financing required to fund the annual deficits has resulted in the intrusion of the Government into the private capital markets in this country. The Government needs carloads of money to finance each year's deficit, and many more carloads to finance the interest on the deficits of previous years. This deficit spending has maintained both real and nominal interest rates at extremely high levels in a time of relatively low inflation.

If the Federal Government will make a true dent in the deficit, and can commit itself to balancing the budget within a short period thereafter, it is my opinion that you will see a significant reduction in interest rates, and sustained prosperity. It is obvious that benefits to be gained by the availability of this additional capital to the private sector will be in the form of new jobs. These new workers will in turn contribute income taxes to help pay the Federal budget. This result is sorely needed in the Calumet region.

NO INCOME TAX INCREASE

Deficit reduction should not be attempted through income tax increase. It is my opinion that an income tax increase would further result in the limiting of the availability of capital to the private sector, resulting in a weaker economy and high unemployment. Congress historically has a bad record of increasing spending by an amount in excess of any tax increase that it imposes upon the citizenry of the United States. The prospect of a tax increase is just too tempting to Congress. When it has money, it feels obligated to spend it. The application of Parkinson's law that dictates that expenses will rise to meet income would most likely surface.

I get little sense that there is any support for a tax increase on the part of anyone in the United States, except a few Members of Congress, and a portion of the liberal bloc. I do not believe that you are one of those Congressmen. The American people spoke on the tax increase loudly and clearly in November with the record defeat of Mondale and the reelection of President Reagan.

Before concluding my comments in regard to the income tax, I feel it is appropriate for me to comment upon the tax reform that you and others have proposed in the form of a flat rate tax, coupled with a simplification of the present Internal Revenue Code. I can support such a reform with one condition, "reform" and "simplification" must not be a mere subterfuge for an income tax increase—no wolf in sheep's clothing. When you first made your proposal, the concept of a tax increase was not the major thrust; however, the budget deficits make your proposal tempting to those Congressmen who want a tax increase.

In consideration of any tax reform proposals, due recognition needs to be given to the fact that certain impacts could result in the economy from such changes. It is my opinion that some effort should be made in the tax structure to provide incentives for savings.

The United States has one of the lowest percentages for the ratio between savings and earned income in the world. This has a corresponding effect on the availabilty of capital in the private sector for the expansion of industries and the growth of jobs, and in the public sector to finance Government and its deficits. In conjunction with the tax reform law, or even before the enactment of such a law, I would urge that additional incentives be built into the tax structure to encourage savings.

In this same vein, I believe that there should be a preservation of those special tax provisions which encourage capital investment in business enterprises. Some of the measures that have been helpful, in my experience, have been the investment tax credit, special recognition of capital gains, and rapid depreciation rules, such as the accelerated cost recovery provisions.

"SUBTERRANEAN" ECONOMY

While I have no hard evidence in regard to the facts, my reading indicates that a great portion of the economic activity in the country is being conducted with the sole objective to avoid the huge levels of income tax. This has been popularly described as the "subterranean economy." An attempt should be made to enforce the tax on this segment of the economy and the amount of the projected tax, if it were collected, would reportably be sufficient to eliminate the deficit.

If the foregoing information is accurate, it is obvious that some method should be found to impose and collect a tax on that part of the economy. If the information is incorrect, it is having a great detrimental effect on the people of the United States. A faithful taxpayer, who reads about the subterranean economy begins to wonder whether or not he is being cheated because he is paying his share of the taxes.

I have no specific solution to this problem, but wonder whether your own committee staff might not be able to come up with some proposals to tax the subterranean economy.

TAX ON UNFAIR FOREIGN COMPETITION

Northwest Indiana is very dependent upon the automobile and steel industries for the vitality of its economy. Many in our region believe that exporting countries are dumping their products on our market below cost. Lee Iacocca, in his autobiography states that Japanese cars sold in the United States sell for a much higher price in Japan. This type of unfair competition damages, and in some instances, destroys our industry, and intensifies our economic and tax woes.

Another example of unfair competition is Japan's arbitrary undervaluation of its yen. This undervaluation gives Japan further price advantage for its products, for example, autos and steel, in the United States. The full force of the American Government should be brought to bear to influence the Japanese to value its yen more realistically, or allow it to float with the market forces.

I would suggest that your committee look at the matter of unfair competition, and consider whether or not special and specific import duties might be an effective way to deal with these types of unfair competition.

This is a matter that will require great care. I believe that free trade is in the best interests of the United States and the world economy. It is only in the area of unfair competition that I am suggesting that taxes might be imposed. The magnitude of the deficit in our international balance of payments suggests that this matter should be given careful scrutiny.

CUTTING SPENDING IS SENSITIVE MATTER

I opened with the comments that I thought it was necessary that we have a balanced budget as promptly as possible. It seems to me that such a budget is impossible without substantial cuts in spending. As stated in the beginning of my remarks, there have been no real budget cuts to date. We have merely cut the rate of increase in spending. The matter of cutting spending is a sensitive matter. It is difficult for a layman to know which program cuts will cause the least harm to the economy, and in the terms of social disruption. I have great concern that there not be cuts that would injure an area such as northwest Indiana. We have never recovered from the recession. The rest of the country, according to economic indicators, has been going through a period of prosperity. There is a concern about a new recession. Our area has never come out of the last recession.

If American industry is provided the incentives to make capital investments to modernize and expand industrial capacity, thereby creating new jobs, and providing for a growing and prosperous economy, and if the American public is given the incentive to save, thereby creating the required pool of capital, there will be no need to discuss income tax increases. There would also need to be no concern that the Government would be in a crowding out position in the capital markets. This, of course, assumes substantial cuts in spending.

In the end, it seems to me, that the only way that substantial cuts may be made in the budget is to make these cuts across the board. In this way, each area of Government will determine where it will take the cuts. There can be no sacred cows. The defense budget must bear a share of the cuts, just the same as all of the other sectors of the economy.

Senator Quayle, I want to thank you for your patience in listening to my remarks, and for providing me the opportunity to be here today. I have attempted to give you a broad view of my thinking on the large issues that are under consideration by your committee as you proceed with what is a very difficult job.

Thank you.

Senator **Quayle**. Thank you very much, Mr. Morrow.

I might explain that little light there. We have a green light that goes on for about 5 minutes, and then the red light goes on, and that means summarize, if you can. You were pretty close, Mr. Morrow.

Mr. Thompson, Earl Thompson.

STATEMENT OF EARL S. THOMPSON, DIRECTOR, STATE AND REGIONAL PUBLIC AFFAIRS, INLAND STEEL CO., INDIANA HARBOR WORKS, EAST CHICAGO, IN

Mr. **Thompson**. Mr. Chairman, I am Earl Thompson, director of State and regional public affairs for the Inland Steel Co. Inland's one steel plant, the Indiana Harbor Works in East Chicago, is the Nation's largest. With a work force of approximately 20,000—89 percent of them living in Indiana—it employs more people than any other single plant in the State.

Senator, the issue you are addressing, drafting the 1986 budget, is a critical one for all residents of Indiana and, indeed, for all Americans. We welcome the opportunity to be here.

JOINT JOB SEARCH CENTER ESTABLISHED

During the next several minutes, I will describe an important program that Inland and Local 1010 of the United Steelworkers of America have jointly established to help laid-off employees to find new careers.

As you know, Senator, a number of factors—ranging from record high levels of steel and steel-related imports to reduced "steel intensity" of the world economy—have created a permanently smaller market for this metal.

Given the sizable steel overcapacity that exists worldwide and the need to reduce costs further to compete in this buyer's market, we recognized that only a small number of the 3,100 Inlanders already on layoff, or the several hundred more likely to lose their jobs in the coming months, have any realistic expectation of returning to work in the steel industry.

This loss of jobs could create major problems in an already economically distressed region, where unemployment stands at some 14 percent, and where many who have lost jobs in steel have exhausted their unemployment benefits, and are receiving no form of public assistance.

Recognizing that, the company and the local union established a joint job search center. It is managed by Mainstream Access, Inc., a respected consulting firm experienced in running successful job programs in steel communities under JTPA title III. We have also submitted a proposal supported by the States of Indiana and Illinois, for additional program funding under the Job Training Partnership Act.

CENTER'S ACTIVITIES

The center's activities combine crisis and career counseling, skills assessment, job search assistance and retraining with job creation to meet the near-term and long-term needs of participants.

The program, offered at no charge to participants, combines personal contact, written communication, employee and union publications, the news media and other approaches to let people know what we can do for them. Many potential program participants have been out of work for months, even years, and they have failed in efforts to find work. We recognized the need to be pro-active and reach out and convince them that this program offers genuine hope.

We are also reaching out to potential employers, including Inland suppliers, seeking their cooperation. Once people express an interest in the program, they are scheduled for an orientation session, where they will learn more about it, and the success it has had in other basic industries.

Following orientation, participants begin several days of personal and career counseling and skills assessment. The assessment process focuses on past accomplishments to identify transferable skills.

By highlighting peoples' strengths, it contributes to increased self-esteem and self-confidence.

In addition to identifying transferable skills, the program also helps participants develop their job-seeking skills, including telephone techniques, resume preparation, interview guidelines, salary negotiations and others.

We have found, for example, that many employees used to the previously secure careers the steel industry offered them, never developed basic "how to get a job" skills.

It also provides support services necessary, including word processing for typing and resume printing, job listings, local and long-distance telephone lines, national industrial directories and newspapers throughout the country.

Also, because we believe that some participants will start their own businesses, we will offer an entrepreneurial training program. It will include management consulting services, logistical support, assistance in locating risk capital and other support activities.

This aspect of the program will draw on the 8 years of successful experience garnered at the Tarrytown Conference Center's School for Entrepreneurs. The center will also help participants locate needed retraining. Experience shows that 60 percent of participants will not require it, but the program will offer assistance to those other 40 percent.

I should also mention that it will offer important followup support, including special job search action clubs where people will discuss their successes, and problems in the job search, and help each other.

Senator, we believe that we have developed an impressive program that can meet the needs of the community and the people who gave dedicated service to the Inland Steel Co. and they deserve help finding new careers.

FUNDING FOR INLAND JOB SEARCH CENTER IS NECESSARY

We believe that funding for the Inland Job Search Center under the Job Training Partnership Act is necessary and justified to help us expand the scope of this joint company-union effort.

You and your colleages in the Senate and House must balance the needs of these people and their communities, of course, with national needs in the budgeting process.

We do feel, however, that the Congress should be made aware of one particular program that the private sector is using, to not only alleviate the problems of unemployment, but also to enhance economic development. I am not here to support JTPA over other programs. I am here to say that this program can work.

You must make, unfortunately, difficult choices of which programs are better than others, and we thank you very much for your time.

Senator QUAYLE. Thank you very much, Mr. Thompson.

Next on my list is Dr. Leslie P. Singer.

STATEMENT OF DR. LESLIE P. SINGER, PROFESSOR OF ECONOMICS, INDIANA UNIVERSITY NORTHWEST, GARY, IN, ACCOMPANIED BY DR. EDITH ALLEN-SCHULT, PORTAGE, IN

Dr. Singer. I am Dr. Leslie P. Singer, and accompanying me is Dr. Allen-Schult. Part of the letter will be read by me, and part of the letter will be read by Dr. Allen-Schult.

RATE OF INCREASE IN DEFICIT MUST BE REVERSED

Willingness to cut Federal expenditures, rightly or wrongly, has become the test of this Nation's commitment to noninflationary economic growth. Rising deficits increase the supply of Government obligations in financial markets. Rising yields cause long and intermediate term real interest rates to exceed their equilibrium values.

The long-term economic health of the Calumet region will be most strongly affected by declines in real interest rates which could induce expansion in existing plants and/or new investment in plants entering the region. Because of the relatively low net return on capital in "Rust Belt" industries, lower costs of borrowing, through both debt and equity markets, is of paramount importance. Consequently, expanding Federal deficits have a significantly greater adverse impact on the Calumet region than on other parts of the country.

Based on our calculations, "Rust Belt" industries can profitably maintain the same rate of net capital accumulation as the rest of the U.S. manufacturing, only if their cost of borrowing is 2 to 3 percentage points below the national average cost of capital. Any change in existing tax law on depreciation will almost surely widen, rather than narrow, this 2 to 3 percent interest rate differential.

In sum, the rate of increase in the Federal deficit must be reversed if this region is to regain some of its economic vitality. We can state categorically that neither relief nor training grants will accomplish this end.

SOCIAL SECURITY AND HEALTH EXPENDITURES

Social Security and health expenditures, mostly to elderly citizens, who, thanks to the miracles of modern medicine, now live longer, are listed at $249.6 billion, or about 30 percent. The demand for these transfers is driven by demographic factors, that is, by the size and the age distribution of the population. Any savings must come on the supply side, through cost containments.

The demand for other programs, such as AFDC, food stamps, Medicaid, school lunches, college tuition, low-income housing, et cetera, are also, at least in part, demographically driven. Urban populations, particularly the urban poor, grow at higher rates than the entire U.S. population. The average family size of this group of people is significantly larger than that of the average population. At the current levels of Federal and State support the proportion of the U.S. population below the poverty line will increase, no matter who is in the White House.

FINANCE PROGRAM INCREASES WITH TAX ON CONSUMPTION

We must conclude that in the long run, significant cuts in the "safety net" programs will not be sustained politically. We recommend that the increase in such programs as Medicaid be entirely financed by an earmarked tax on consumption, either a turnover tax or a sales or excise tax. The base for the earmarked tax could be chosen to reduce the regressive aspect of consumption taxes.

Indiana has received significant dollars in community development block grants, revenue sharing, urban development block grants and the Economic Development Administration. Economic efficiency commends their consolidation to save on bureaucracy. Elimination of all of these programs in 1 year is too drastic, but the political will for reduction is strong, making a case for consolidation.

Dr. ALLEN-SCHULT. My name is Dr. Edith Allen-Schult, 9570 Old Porter Road, Portage, IN.

Hoosiers support a strong national defense, but do not want their tax dollars wasted. There must be some discretionary spending in the $294.6 billion request.

RESEARCH AND DEVELOPMENT ALLOCATIONS PREFERRED

From an economic point of view, research and development allocations are preferred to marginal purchases. We do not have in the United States a National Institute of Research. Historically, defense research has had significant spillovers into the private sector. It is more public and private research and development, and not expanded transfers, which will bring the Calumet region back to life. This region is, and will remain, the manufacturing hub of the State of Indiana, even though the character of our manufacturing industries may change over time.

Along with research, we also recommend that the higher education programs, including Pell grants and work study programs, remain intact. These programs stimulate national investment in human capital. They generate income and employment.

In our opinion, it is unwise to equate such programs with "Safety nets." One would not want to make a person whose family lives on Park Avenue eligible for food stamps, but their application for work study payments should not be denied on that account. Moreover, talent is not necessarily correlated with income. Thus, once the total allocation for support to higher education is determined, its distribution should be left open to competition based on talent. Otherwise, the economy may not optimize its investment in human capital.

INVESTMENT IN HUMAN CAPITAL RECOMMENDED

Dr. SINGER. We have just carried out an extensive national study of the impact of higher education on economic growth in the United States. Our recommendations for investment in human capital are based on the central conclusion of the study, as follows:

Our findings support the view that quality is this State's and the Nation's next frontier. As reindustrialization of the country and the State proceeds, new and more advanced capital will gradually replace the existing stock. To prosper, States do need net investment. In turn, this phenomenon will tend to raise the ratio of skilled or educated management and technical personnel to production workers.

On the supply side, this implies that expenditures on higher education may have to rise more rapidly than general education expenditures.

State expenditures on higher education enhance the quality of new additions to capital manufacturing. Higher education tends to increase value added more than proportionately.

New capital formation by firms requires an increase in qualified management. Higher education institutions must meet this rising demand to prevent bottlenecks which may retard growth of industry in the State.

Industries which are at the cutting edge of economic growth, and therefore, which have a greater than usual demand for high quality, appear to be attracted to States which support higher education, more than other States. Other things equal, the leverage of expenditures on higher education is almost twice as high for growth industries, as compared to manufacturing in general.

For States which spend more on higher education, the odds on probability that a growth industry will locate there is higher. The regional differences give the Midwest a slight edge, but the education effect is large enough to dominate regional effects, as California and Massachusetts show.

Thank you.

Senator QUAYLE. Thank you Dr. Singer and Dr. Allen-Schult.

Ms. Judith E.A. Sheets.

STATEMENT OF JUDITH E.A. SHEETS, DIRECTOR OF PLANNING AND DEVELOPMENT, CALUMET COLLEGE, HAMMOND, IN

Ms. SHEETS. Good afternoon, Senator.

I am Judith E.A. Sheets, director of planning and development at Calumet College, Hammond, IN.

I have submitted a lengthy presentation, and I would like for the entire testimony to be entered into the record.[1]

JOB CORPS

Senator QUAYLE. Thank you very much, Ms. Sheets.

Let me ask a question about the Job Corps.

Ms. SHEETS. Yes.

Senator QUAYLE. Since you brought it up, what about the idea—we have got a number of Job Corps centers around the country, and some are in better shape than others, some more efficient than others, and with the capital expenditures that have to go into some of them to get them back up to speed, how about preserving the ones that ought to be preserved, and are in good shape, to be run fairly well, efficiently, and phasing out the ones that are not, and transferring some of that responsibility in those particular areas over to title II, to JCD?

---

[1] See p. 570.

Does that meet your criteria of the five areas you raise, as to what is essential, what we are getting for the dollar, and the Federal role and impact, things like that?

Ms. SHEETS. I sincerely believe, under any circumstances, whether the Job Corps is eliminated in 2 years, or not eliminated, it makes a good deal of sense to return those, send those that are the most effective, and you are absolutely correct, there is inconsistency in the Job Corps, in administering the program. There are no residence requirements for a particular area, and there is no reason why young people could not be transferred to the more efficient centers, and eliminate the less efficient centers.

I do not believe necessarily that those same people will be serviced if they go under the title II programs, because we already know from experience that they tend not to be successful in those programs. The Job Corps kids are the ones that did not make it in the other programs, and probably will be dependent upon the Federal Government dollar, whether it be Federal, State or local, for the rest of their lives, unless we turn them around.

Senator QUAYLE. You are saying that, as general rule, the people that are in the Job Corps probably could not make it under the title II?

Ms. SHEETS. That is the experience.

FEAR OF INFLATION

Senator QUAYLE. Let me ask our business panel one question.

Inflation is down below 5 percent, and all of the economic forecasts from Chairman Volcker show that inflation is going to be below five percent this year, and probably next year. Is the fear of inflation still out there in the real world?

Mr. MORROW. It is still out there in the real world, because the fear of inflation is there, it is a possibility, and the probability of a recurrence is there, unless something is done to cut the Federal expenditure, the Federal deficit, so that the capital market can function, and interest rates can come down. Unless the cost-driven inflation can be lessened, we are going to have these high levels of cost that is generated to a large extent by the high cost of money, and the high cost of energy, a lot of inflationary forces, and we do not see, as businessmen, a permanent lessening of inflation.

We see it at the near term, we know it is there, we have seen it in the last year at 3 or 4 percent, or thereabouts, and we look for it at maybe about the same level this year, but it is the future years that is scary, and keeps long—term interest rates at a probably artificially high level.

Senator QUAYLE. Mr. Thompson, first I want to congratulate you on that Inland Research Center, and tell you we will continue to work on that. I want to say it here publicly.

Mr. THOMPSON. Thank you.

Senator QUAYLE. The greatest fact to the future of the steel industry is that high interest rates serve inflation. What would you say that the worst economic threat out there in the steel industry is? Is there one?

THREAT OF INFLATION MAKES PLANNING DIFFICULT

Mr. THOMPSON. I am not sure there is one. Just commenting briefly on the inflation question, in a very capital intensive industry, where we must plan years ahead to build a facility, obviously the threat of inflation and the uncertainty of, makes that planning extremely difficult.

Our capital expenditures per year are in excess of $100 million, and that is just generally, normally right here in east Chicago, as we build newer facilities, which probably, from the point of inception, in terms of planning, to actually occupying the facility, 3 to 5 years, that inflationary trend is obviously extremely critical to how costly that facility is going to be.

If our calculations are incorrect, then our return on investment is obviously going to be much less than what we had expected, which makes possibly for an unprofitable investment.

Senator QUAYLE. So you are saying, Mr. Thompson, that ghost out there in the future, the ghost of inflation, is really very much of an uncertainty, and therefore creates potential instability in your planning on capital expenditures?

Mr. THOMPSON. I think so.

Senator QUAYLE. Dr. Singer and Dr. Allen-Schult, is this expectation on the return of inflation still there?

Dr. ALLEN-SCHULT. It is the uncertainty because there are persistent pressures to keep the inflation down in these few years, but nobody knows.

REAL RATES OF INTEREST ARE TOO HIGH

Dr. SINGER. What I would like to point out is that from the point of view of the steel industry, and other manufacturing in general, is the real interest rate that matters. You see, if you have no inflation, which we may never obtain, but supposing you have no inflation, by increasing supply you raise the rates any way, and this curtails investment. No matter what happens, I think interest rates, nominal rates, are what matters, and I do not think inflation is the greatest problem.

The greatest problem is that our real rates of interest are too high, and they continue to be too high, as long as there are inflationary expectations. It is the inflation expectation which drives long-term real rates of interest.

Mr. MORROW. We are in a policy of keeping our investment very short, so that we lessen our exposure to the uncertainty of inflation in the distant future. We are not buying any of your 30-year Government bonds. We have not bought a long-term bond since 1980, and I think that the banks that are in a high-performance category are not going out beyond 5 years. So it makes the cost of borrowing for the Government on those long-term bonds artificially high, too.

I mean, the Government has to pay the price of the uncertainty, because it drives up their cost of borrowing, in addition to coming in and absorbing the greater portion of the capital pool. With the so-called rodding out aspect of the Government borrowing, we are getting a double whammy.

DEFICITS ARE UPWARD PRESSURE ON INTEREST RATES

Senator **Quayle**. Let me ask this one interest-free question. Mr. Morrow, I have always said, and I still believe that the deficits, particularly large deficits, are upward pressure on interest rates. In the last 12 months we have had huge deficits, and interest rates have come down. That does not go back to the conventional way.

Mr. **Morrow**. Nominally. Nominally interest rates have come down.

Senator **Quayle**. Are you focusing on the real interest rate?

Mr. **Morrow**. The real interest rate, which is, as Dr. Singer indicated, the difference between the stated rate and the rate of inflation. I do not think that is——

Senator **Quayle**. That has come down a point or two.

Mr. **Morrow**. That margin has not veered a significant amount, in some time.

Dr. **Singer**. It has come down, however.

Mr. **Morrow**. Six or seven points level.

Senator **Quayle**. It has come down from eight or nine?

Dr. **Singer**. You can also reduce the rate of interest. What will happen, though, is when the different constituencies, different demands for the funds come into play, and the economy rebounds, then you have an upward—because we have a lull in the economy, now that lull in the economy does not come forever, you have a slowing down of the economy, there is always a 6- or 7-month delay between the interest rate reaction, or the response of the market to the interest rate and the supply of money.

Now, after the first 5 months, when you have the upturn, there will be—now it will go down some more, interest, interest rates will come down, so the gap will widen, so real interest rates will rise.

Senator **Quayle**. Gentlemen and ladies, thank you very much.

Our final panel is Mr. Ray Sierra, Mr. Jack Parton, the Rev. A.R. Burns, Mr. Steven Strains, and Bruce Williams or Cliff Gray, one of those individuals will be testifying as well.

Mr. Sierra?

STATEMENT OF RAYMOND SIERRA, EXECUTIVE VICE PRESIDENT, GREAT LAKES DISTRICT, INTERNATIONAL LONGSHOREMEN'S ASSOCIATION, AFL-CIO, AND BUSINESS AGENT FOR ILA LOCAL 1969, PORT OF INDIANA, PORTAGE, IN

Mr. **Sierra**. My name is Raymond Sierra, executive vice president, Great Lakes District, International Longshoremen's Association. My offices are located at the Port of Indiana, Portage, IN, and I appear today as a representative of the members of the International Longshoremen's Association who live and work in Indiana and other States bordering the Great Lakes.

Over the past several weeks, the topic of the budget and its impact along with the deficit have been a major concern with the officers and members of the International Longshoremen's Association. As of this date, we have not finalized a firm position on any of the issues within the budget.

We recognize the vital need to reverse the trend of staggering deficits. We also realize that there are no easy answers. That worth while programs designed to assist those in our society who need help will have to be trimmed, and that a policy must be developed to effectively support the farmers of America in a way that will enable them to survive and prosper, but without spending billions of dollars in programs that have not worked. That we insist on the preservation and maintenance of a strong national defense as the best means of achieving a just and lasting peace, but a defense system that diligently and prudently adheres to a policy of no waste.

WORTHWHILE PROGRAMS WILL HAVE TO BE CUT

There are many programs that are worthwhile. However, it is obvious that we cannot continue to fund all of them. If we are to bring the deficit under control, controlled prudent spending and cuts will have to be made. When we examine the 10 largest programs to be cut under the President's proposal, we find:

General revenue sharing, $3.4 billion; rural housing loans, $2.3 billion; strategic petroleum reserves, $1.7 billion; Small Business Administration, $1.5 billion; Postal subsidies, $981 million; Urban Mass Transit, $769 million; Amtrak $574 million; new HUD housing, $400 million; Legal Services Corporation, $282 million; and Community Services Program, $255 million.

Collectively, it is to our understanding that these cuts amount to approximately $12 billion. In addition, there are 16 other separate programs which will be reduced or eliminated, to reach the final target of reducing some $50 billion-plus from the 1986 budget. It should be noted that under the President's budget, funding for defense, Medicare, social security, health care, and interest under the national debt will increase. We agree that these increases over the current budget are required and necessary. This renders the task of starting down the road toward a balanced budget more difficult.

Therefore, I am reminded of an old story that dates back to the Great Depression. A kind and loving father with a family of six children was fortunate enough to pick up some work one day, and after buying the necessities for the evening meal, found he had an extra nickel left. With that 5 cents, he was able to buy five pieces of candy. After dinner he distributed the pieces of candy to each of his children, starting with the oldest. When he reached the youngest child, the candy was gone. His youngest child looked at him sadly and said, "Daddy, ain't I your child, too?" The father answered yes, and with that he took the pieces of candy from each of the other children, even though they protested.

Mr. Senator, I do not envy your position and its responsibilities. Therefore, we shall continue to follow the debates and closely consider each serious proposal as it develops. We will be pleased to offer, for your consideration, our opinions on specific issues as our elected officials toil over this budget and its deficits.

Thank you.

Senator QUAYLE. Thank you, Mr. Sierra.

Mr. Jack Parton?

STATEMENT OF JACK PARTON, DIRECTOR, DISTRICT 31, UNITED STEELWORKERS OF AMERICA, AFL-CIO, EAST CHICAGO, IN

Mr. **Parton**. Senator Quayle, on behalf of our 95,000 members, we appreciate your coming to northwest Indiana to hear our testimony. I will be primarily testifying on the Job Training Partnership Act and the Trade Adjustment Assistance Act.

RETRAINING STEELWORKERS FOR NEW JOBS NECESSARY

Temporary layoffs generated by swings in the business cycle have been common in the steel industry, many steelworkers are now faced, for the first time, with the reality of having to find a new job in a different industry. The skills which these workers possess are, for the most part, industry specific and nontransferable. Therefore, retraining for new skills and jobs is necessary for them to become job marketable. Right here in northwest Indiana, Senator Quayle, more than 20,000 steelworkers have suffered permanent layoff in the last 2 years.

In 1984, direct steel imports accounted for 26.6 percent of the domestic market. During the second half of last year market penetration surged to almost 30 percent. The sharp increase in imports which would result from expiration of the Voluntary Restraint Agreement on automobile imports from Japan would not only devastate the domestic auto industry's recovery, but would further weaken our domestic steel industry as well. Automobiles, commercial vehicles, and automotive component parts account for 62 percent of indirect steel imports.

Last year the President commissioned the Steel Advisory Committee, a tripartite forum of company, union, and governmental agencies, to scrutinize the problems of the steel industry, and to make recommendations for change. One of the committee's recommendations concluded that the size and nature of steel industry unemployment is such as to require national funding of retraining and job search activities to serve those whose connections to the industry are permanently severed.

The committee further recommended that the size and characteristics of the steel industry's problems justify establishment of an ad hoc committee which will act as an industry oversight group to enhance the administration of a model steel adjustment program.

DISLOCATED WORKER CENTERS ESTABLISHED

Our Union has embarked on a systematic program to provide comprehensive readjustment for those whose jobs have been permanently lost. Dislocated worker centers have been established at United States Steel and Inland Steel facilities which closed in 1984, and we are currently in discussions with the other companies under our contractual agreement to develop a similar response. Each center operates under joint authority of company and union personnel, and offers a variety of services which include:

Testing and assessment, job search workshops and job clubs, resume preparation, job development, counseling, social service referrals, education and retraining, and job placement.

Funding for these centers comes from the corporation and a matching grant through title III of the Job Training Partnership Act. In addition, a new source of funds for retraining and job placement comes from the recently enacted Steel Stabilization Act, which requires each major steel producer to set aside 1 percent of its net cash flow over the next 5 years for these purposes. Insomuch as these are private funds, they serve as matching funds for JTPA moneys.

Our union's aim is to establish dislocated worker centers in every steel community with permanently laid off workers. We believe that with private funds flowing from the Steel Stabilization Act, coupled with JTPA and TRA public programs, these workers can make the necessary adjustment to meaningful employment.

EXTEND VOLUNTARY RESTRAINT AGREEMENT ON JAPANESE AUTOMOBILES

We implore you, Senator Quayle, to press for extension of the Voluntary Restraint Agreement on automobile imports from Japan. We urge you and the Senate Budget Committee to exert all of your influence in seeking full funding to JTPA under current fiscal appropriations, as well as that you request budget authority for continuation of the TRA program.

Senator, on behalf of our 95,000 steelworkers here in district 31, we ask for you to press for extensions of the Voluntary Restraint Agreement on imports from Japan.

We urge you and the Senate Budget Committee to use all your efforts to seek full funding to JTPA under current participation, as well as the budget authority for the continuation of the TRA program, and I thank you.

Senator **Quayle**. Thank you.

Mr. Steven Strains.

STATEMENT OF STEVEN R. STRAINS, DIRECTOR, TRANSIT SERVICES, NORTHWESTERN INDIANA REGIONAL PLANNING COMMISSION, HIGHLAND, IN

Mr. **Strains**. I am Steve Strains, director of transit services for the Northwestern Indiana Regional Planning Commission. This commission is a cooperative of local units of government, involving the cities, towns and counties of Lake, Porter, and LaPorte Counties. We are situated on the southend of Lake Michigan, home of the Indiana Dunes National Lakeshore, heart of the great steammaking facilities of the Calumet region, and the last operating electric interurban railroad in the country, the Chicago South Shore and South Bend Railroad.

Senator **Quayle**. We will put your entire statement into the record.

[The prepared statement of Mr. Strains follows:]

STATEMENT OF STEVEN R. STRAINS, DIRECTOR OF TRANSIT SERVICES OF THE NORTHWESTERN INDIANA REGIONAL PLANNING COMMISSION, BEFORE A UNITED STATES SENATE FIELD BUDGET HEARING, PRESIDED BY SENATOR DAN QUAYLE, MEMBER, SENATE BUDGET COMMTTEE.

HAMMOND, INDIANA

FEBRUARY 25, 1985

I AM STEVE STRAINS, DIRECTOR OF TRANSIT SERVICES FOR THE NORTHWESTERN INDIANA REGIONAL PLANNING COMMISSION. THIS COMMISSION IS A COOPERATIVE OF LOCAL UNITS OF GOVERNMENT INVOLVING THE CITIES, TOWNS AND COUNTIES OF LAKE, PORTER AND LAPORTE COUNTIES. WE ARE SITUATED ON THE SOUTH END OF LAKE MICHIGAN, HOME OF THE INDIANA DUNES NATIONAL LAKESHORE, HEART OF THE GREAT STEEL MAKING FACILITIES OF THE CALUMET REGION, AND THE LAST OPERATING ELECTRIC INTERURBAN RAILROAD IN THE COUNTRY - THE CHICAGO SOUTH SHORE AND SOUTH BEND RAILROAD.

IN BEHALF OF THE CITIES AND TOWNS AND THE THREE COUNTIES IN OUR REGION AND PARTICULARLY THOSE CITIES, DISTRICTS AND AGENCIES HAVING PUBLIC TRANSPORTATION RESPONSIBILITY, I APPRECIATE THE OPPORTUNITY TO EXPRESS VIEWS AND OPINIONS REGARDING THE FACTS ASSOCIATED WITH THE IMPACT OF PRESIDENT REAGAN'S 1986 TRANSIT BUDGET PROPOSALS ON OUR AREA.

MORE PEOPLE ARE USING PUBLIC TRANSPORTATION IN RECENT YEARS, 18% MORE JUST BETWEEN 1982 AND 1983 IN THIS REGION. IN RESPONSE TO THE INCREASED DEMAND FOR EXPANDED SERVICE, TRANSIT SYSTEMS HAVE MADE COMMITMENTS TO IMPROVE THEIR SERVICE, RECAPITALIZE AGING FLEETS, AND MODERNIZE MAINTENANCE FACILITIES. THIS COMMITMENT HAS BEEN MADE WITH THE FULL UNDERSTANDING THAT IT WOULD BE A PARTNERSHIP, WITH RESPONSIBILITY DIVIDED BETWEEN THE USER, AND LOCAL, STATE, AND FEDERAL GOVERNMENTS. IN ADDITION, WE ARE EXPERIENCING FOR THE FIRST TIME, LOCALITIES THAT ARE UNDER PRESSURE FROM THE PUBLIC TO PROVIDE AN AFFORDABLE ALTERNATIVE TO THE PRIVATE AUTOMOBILE. COMMUNITY SURVEYS IN OUR AREA CONSISTENTLY IDENTIFY THE DEMAND FOR A REGIONWIDE SYSTEM OF PUBLIC MASS TRANSPORTATION.

SINCE THE INITIAL MOVE FROM PRIVATE TO PUBLIC OWNERSHIP IN THE LATE 1960'S, INDIANA AND NORTHWEST INDIANA IN PARTICULAR, HAVE WITNESSED A GRADUAL BUT STEADY GROWTH IN THE IMPLEMENTATION AND IMPROVEMENT OF PUBLIC TRANSPORTATION SERVICES AND FACILITIES. MUCH OF THE RENEWED INTEREST IN PUBLIC TRANSIT IS A DIRECT RESULT OF THE LACK OF AN AFFORDABLE ALTERNATIVE TO THE RAPIDLY RISING COSTS OF PERSONAL TRANSPORTATION AND THE AVAILABILITY OF FEDERAL AND STATE OPERATING ASSISTANCE PROGRAMS.

THROUGH THE COMBINED EFFORTS OF LOCAL, STATE AND FEDERAL PROGRAMS, INDIANA HAS 31 TRANSIT SYSTEMS WHICH CARRIED OVER 35 MILLION PASSENGERS IN 1983 AN INCREASE OF 6% OVER 1979. NINE OF THESE SYSTEMS, PLUS TWO PRIVATE COMMUTER BUS OPERATORS, ARE IN OUR THREE COUNTY AREA. THEY ARE THE VALPARAISO TO CHICAGO AMTRAK LINE, THE CHICAGO, SOUTH SHORE AND SOUTH BEND RAILROAD, EAST CHICAGO BUS TRANSIT, THE GARY PUBLIC TRANSPORTATION CORPORATION, THE HAMMOND INTERCITY SYSTEM, HAMMOND YELLOW COACH LINES, VIP COACH LINES, THE LAKE COUNTY ECONOMIC OPPORTUNITY COUNCIL, MICHIGAN CITY MUNICIPAL COACH, THE TRADE WINDS REHABILITATION CENTER AND LAPORTE TRANSPORTE. THEY CARRIED OVER 8 MILLION PEOPLE IN 1983 AND AGAIN IN 1984. TABLE 1 SHOWS RIDERSHIP FROM 1981 THROUGH 1983.

for revenues

BESIDES INCREASED RIDERSHIP, THE PUBLICALLY SUPPORTED SYSTEMS ARE SHOWING SOME FINANCIAL IMPROVEMENT. THE OPERATING EXPENSES OF THE 8 MAJOR TRANSIT SYSTEMS WERE $19.7 MILLION IN 1984. FARES WERE $9.3 MILLION OR 47% OF THE EXPENSES. THIS IS UP FROM 40% IN 1983 A DRAMATIC INCREASE IN THE USER'S CONTRIBUTION. TABLE 2 SHOWS THAT OPERATING EXPENSES DECREASED WHILE FAREBOX REVENUES INCREASED DURING THE LAST YEAR. NOTE TABLE 3 WHICH BREAKS DOWN THE INFORMATION BY SYSTEM.

TABLE 2

	OPERATING EXPENSES	FAREBOX REVENUES	% REV./EXP.
1983	$20,035,168	$7,957,548	39.7
1984	19,773,866	9,301,395	47.0

THE OPERATORS, OVER RECENT HISTORY ARE HOLDING DOWN EXPENSES AND BEGINNING TO HAVE SOME SUCCESS IN NARROWING THE GAP BETWEEN COSTS AND ~~REVENUES.~~ THEY HAVE ALREADY IMPLEMENTED SERVICE REDUCTIONS AND HAVE RAISED FARES. IN MY OPINION, IF THEY DO MUCH MORE OF EITHER, THOUSANDS OF RIDERS WILL BE CHASED AWAY BECAUSE THE SERVICE WILL NOT SUIT THEIR TRAVEL NEEDS AND THE FARES WILL BE OUT OF THEIR REACH.

HOW WILL THE PRESIDENT'S BUDGET PROPOSALS REALLY AFFECT THE PEOPLE AND TRANSIT SYSTEMS IN NORTHWEST INDIANA? THE $10 MILLION NORTHWEST INDIANA RECEIVES FROM THE URBAN MASS TRANSPORTATION ADMINISTRATION ANNUALLY WILL BE SLASHED TO $4.4 MILLION ACCORDING TO AN INDIANA DEPARTMENT OF TRANSPORTATION ESTIMATE. WITH NO OPERATING ASSISTANCE AND SEVERELY REDUCED CAPITAL FUNDS, THE NORTHERN INDIANA COMMUTER TRANSPORTATION DISTRICT CALLS THE IMPACT "DEVASTATING".

Section 9 Program

IT WOULD BE IMPOSSIBLE FOR LOCAL AND STATE GOVERNMENT TO CARRY THE TOTAL BURDEN OF TRANSIT OPERATING SUBSIDIES. ONLY RECENTLY HAS THE STATE BEGUN TO CONTRIBUTE A MORE THAN MODEST AMOUNT TOWARD THE OPERATION OF INDIANA'S TRANSIT SYSTEMS. THE SOURCE IS .76% OF THE GENERAL SALES TAX, WHICH GENERATES $10.7 MILLION ANNUALLY AND CAN ONLY BE USED TO MATCH FEDERAL FUNDS. TWO MILLION DOLLARS IS ALLOCATED AMONG THE SIX SYSTEMS IN OUR URBANIZED AREA. IT IS AN ANNUAL STRUGGLE TO KEEP THAT REVENUE SOURCE, GIVEN THE RURAL NATURE OF MUCH OF THE STATE AS WELL AS THE DEMANDS ON THE STATE TREASURY BY OTHER COMPETING INTERESTS. BOTH LARGE AND SMALL SYSTEMS WOULD SUFFER FROM A CUTBACK IN EITHER STATE OR FEDERAL OPERATING RESOURCES. IT IS MOST DIFFICULT TO GENERATE NEW RESOURCES IN A STATE WITH A FROZEN PROPERTY TAX RATE. THE IMPACTS ARE WIDESPREAD. THE PEOPLE WHO CAN LEAST AFFORD TO PAY WOULD CERTAINLY BE HURT THE MOST BY FARE HIKES AND SERVICE CUTS RESULTING FROM OPERATING SUBSIDY LOSSES.

FARES FOR EXISTING BUS SERVICE WOULD INCREASE BY 150 - 160% IN OUR ESTIMATION. THE COST OF A RIDE WOULD LIKELY RISE TO $1.40 OR $1.50 FROM THE PRESENT $.75. THE SAME PERCENTAGES ALSO APPLY TO OUR COMMUTER RAIL SERVICE. EVEN WITH THIS KIND OF FARE HIKE THERE WOULD BE NO ROOM FOR SYSTEM IMPROVEMENTS OR SERVICE AREA EXPANSION.

IF IMPLEMENTED, THE ADMINISTRATION PROPOSED TRANSPORTATION CUTS SIMPLY SHIFT THE BURDEN OF RESPONSIBILITY FROM THE FEDERAL TO STATE AND LOCAL GOVERNMENTS WHICH IN INDIANA ARE INCAPABLE OF EFFECTIVE FINANCIAL RESPONSE. LOCAL COMMUNITIES AND REGIONS IN INDIANA HAVE PRIMARILY THE PROPERTY TAX AS A SOURCE FOR TRANSIT REVENUE, AND THAT RATE HAS BEEN BASICALLY FROZEN SINCE 1973. NOT ONLY COULD INDIANA'S CITIES NOT AFFORD TO GENERATE THE AMOUNT OF DOLLARS NECESSARY TO SUPPORT THEIR TRANSIT SYSTEMS, THEY LEGALLY COULD NOT DO IT WITHOUT CUTTING OTHER ESSENTIAL PUBLIC SERVICES.

MICHIGAN CITY'S MAYOR, CLIFFORD ARNOLD, SAID "THERE IS NO QUESTION THAT A LOSS OF OPERATING FUNDS WOULD MEAN THE END OF BUS SERVICE IN MICHIGAN CITY. THERE IS NO WAY UNDER A FROZEN TAX RATE IN INDIANA WE COULD BE ABLE TO OPERATE A BUS SYSTEM. IT WOULD BE A DISASTER FOR THE CITY OF MICHIGAN CITY AND WOULD LEAVE MANY OF ITS SENIOR CITIZENS AND HANDICAPPED WITHOUT ALTERNATE TRANSPORTATION." THE BUS SUPERINTENDENT SAID THAT 75 TO 80% OF THE RIDERS ARE ELDERLY OR HANDICAPPED AND ANOTHER 5 TO 10% ARE STUDENTS.

IN THE VIEW OF MARY JANE THOMAS, LAPORTE'S CITY PLANNER, THEIR SYSTEM'S FUNDING SOURCES ARE "BEING HIT ON ALL SIDES. FIRST, THE STATE IS RECONSIDERING ITS ALLOCATION FORMULA WHICH WOULD DECREASE LAPORTE'S AMOUNT BY 6.1%. SECOND, THERE IS THE LOSS OF UMTA SECTION 18 FUNDS, AND, THIRD, LAPORTE WOULD LOSE ITS HISTORICAL MATCH UNDER THE PRESIDENT'S BUDGET, WHICH IS REVENUE SHARING. THE IMPACTS ARE EXTREMELY SEVERE WITH CONSEQUENCES RANGING FROM HAVING TO ELIMINATE SERVICE TO INCREASING TAXES OR INCREASING FARES. ANOTHER ALTERNATIVE IS TO SCALE DOWN THE SERVICE TO SUCH A POINT AS TO BE INEFFECTIVE. THERE IS NO WAY LOCAL FUNDING WOULD BE AVAILABLE. INCREASED TAXES WOULD NOT ACCOMPLISH ANYTHING, ONLY SHIFT THE BURDEN FROM THE FEDERAL TO THE LOCAL WHICH WOULD BE AN EVEN GREATER INDIVIDUAL TAX BURDEN".

THE MANAGER OF HAMMOND YELLOW COACH LINES SAID FEDERALLY SUBSIDIZED PURCHASES IS "A POSITIVE APPROACH IN SOLVING THE PROBLEMS ASSOCIATED WITH PUBLICALLY FUNDED TRANSIT OPERATIONS. CAPITAL SUBSIDIES ARE OF GREAT VALUE TO PRIVATE FOR PROFIT TRANSIT OPERATORS WHO DO NOT RECEIVE ANY OPERATING SUBSIDIES. WE STRONGLY FAVOR AND RESPECTFULLY ASK FOR SUPPORT IN THE CONTINUANCES OF DISCRETIONARY CAPITAL SUBSIDIES THROUGH THE URBAN MASS TRANSPORTATION ADMINISTRATION SECTION 3 PROGRAM".

THE MANAGER OF THE LARGEST LOCAL BUS OPERATION IN THE AREA AND THIRD LARGEST IN THE STATE IN TERMS OF RIDERSHIP DESCRIBED THE HARDSHIP ASSOCIATED WITH THE PROPOSED BUDGET THIS WAY: "THE GARY PUBLIC TRANSPORTATION CORPORATION WOULD BE ADVERSELY AFFECTED BY THE LOSS OR SERIOUS REDUCTION IN THE CAPITAL ASSISTANCE PROGRAM ON A LONG TERM BASIS. HOWEVER, THE IMMEDIATE CONCERN IS A PROPOSED LOSS OF THE FEDERAL OPERATING ASSISTANCE FUNDS WHICH WERE USED TO PAY 22 PERCENT OF THE GPTC OPERATING EXPENSES IN 1983 . . . THE LOSS OF FEDERAL OPERATING ASSISTANCE AND MATCHING STATE ASSISTANCE (WHICH IS LEGALLY TIED TO FEDERAL GRANTS) WOULD TOTAL 37 PERCENT IN 1983. IN ORDER TO SURVIVE, GPTC WOULD EITHER HAVE TO REDUCE ITS EXPENSES BY 37 PERCENT, INCREASE ITS REVENUE SUFFICIENTLY TO OFFSET THE LOSS OF OPERATING ASSISTANCE OR IMPLEMENT A COMBINATION OF THE TWO. A REDUCTION OF EXPENSES OF THIS MAGNITUDE ON GPTC WOULD NOT LEAVE A VIABLE OPERATION AND WOULD WORK A HARDSHIP ON THE RIDING PUBLIC INCLUDING WORKERS, SENIOR CITIZENS AND SCHOOL CHILDREN. REVENUE CANNOT BE INCREASED TO

OFFSET THE LOSS OF OPERATING ASSISTANCE AS THE BASIC ADULT FARES WERE JUST INCREASED TO $.75 IN 1983. THEREFORE, INCREASES IN FARES IN A CITY THE SIZE OF GARY WOULD BE COUNTER-PRODUCTIVE.

"THE CITY OF GARY AND THE GARY PUBLIC TRANSPORTATION CORPORATION ARE ALREADY CONTENDING WITH A DEPRESSED LOCAL ECONOMY AS A RESULT OF THE REDUCTION AND CUT BACK OF THE CITY'S LARGEST EMPLOYER, U. S. STEEL CORPORATION.

"THE LOSS OF FEDERAL OPERATING ASSISTANCE WOULD RESULT IN A MAJOR REDUCTION IN LOCAL BUS SERVICE. THIS WOULD DEPRIVE MANY CITIZENS WHO ARE PRESENTLY USING THE BUSES TO GET TO AND FROM WORK. MANY OF THESE CITIZENS ARE WORKING AT OR NEAR THE MINIMUM WAGE AND SIMPLY CANNOT AFFORD TO OWN AN AUTOMOBILE. IT WOULD ALSO REDUCE THE MOBILITY OF OUR SENIOR CITIZENS WHO RELY ON OUR BUSES TO OBTAIN ESSENTIAL SERVICES.

"CONSEQUENTLY, MAJOR SERVICE REDUCTIONS WOULD NOT ONLY RESULT IN A LOSS IN JOBS FOR MANY OF OUR EMPLOYEES BUT WOULD ALSO CREATE UNEMPLOYMENT FOR MANY OF THE RIDERS WHO PRESENTLY HOLD LOW PAYING JOBS. THUS, MANY CITIZENS OF GARY WHO ARE PRESENTLY WORKING AND PAYING TAXES WOULD BECOME DEPENDENT ON OTHER FEDERAL PROGRAMS SUCH AS WELFARE, AID TO DEPENDENT CHILDREN AND FOOD STAMPS, ETC."

THE TRADE WINDS REHABILITATION CENTER RECEIVES 22% OF ITS EXPENSES FROM FEDERAL OPERATING ASSISTANCE TO SUPPORT ITS DOOR-TO-DOOR TRANSPORTATION FOR THE ELDERLY AND HANDICAPPED. THE CENTER TRANSPORTS BETWEEN 450 AND 500 PEOPLE EACH DAY. TRIP PURPOSES INCLUDE EDUCATION AT TRADE WINDS AND UNIVERSITIES AS WELL AS FOR WORK, TO GROCERY SHOPPING AND VISITS TO SOCIAL SECURITY OFFICES. TRADE WINDS' STAFF HAS PREDICTED THAT "THREE BUSES WOULD BE TAKEN OUT OF SERVICE, SOME STAFF LAYOFFS WOULD RESULT AND APPROXIMATELY 125 LESS PEOPLE COULD BE TRANSPORTED DAILY. IT WOULD BE DIFFICULT TO MAKE UP FOR THE LOSS OF FEDERAL OPERATING ASSISTANCE." FARES, WHICH ARE BASED ON ONE'S ABILITY TO PAY WOULD LIKELY HAVE TO BECOME MANDATORY. THE IMPACT WOULD BE UPON THE ELDERLY AND HANDICAPPED WHO ARE GENERALLY THOSE WITH LOWER INCOMES AND HAVE HIGHER MEDICAL EXPENSES."

THE ONE NOTE OF OPTIMISM COMES FROM THE MANAGER OF THE HAMMOND INTERCITY SYSTEM WHO SAID THEY "WILL CONTINUE TO OPERATE AND DO NOT INTEND TO RAISE FARES WHICH WOULD BE COUNTER-PRODUCTIVE; LOSING THE MAJORITY OF RIDERS." HAMMOND WOULD NOT CUT SERVICE HOURS NOR SERVICE TO EACH OF ITS NEIGHBORHOODS BUT WOULD "FIND THE MONEY SOMEWHERE".

THE ELIMINATION OF SUBSIDIES FOR AMTRAK COULD MEAN ELIMINATION OF THE COMMUTER RAIL LINE OPERATED BETWEEN VALPARAISO AND CHICAGO. MAYOR CALVIN GREEN OF HOBART, WHICH IS ONE OF THE COMMUNITIES SERVED BY THE LINE, EXPRESSED GREAT CONCERN OVER HOW THE AMTRAK COMMUTERS WILL GET TO THEIR JOBS IN CHICAGO. MAYOR GREEN, WHO ALSO CHAIRS THE COMMISSION'S TRANSPORTATION POLICY COMMITTEE SAID "THE LOSS OF AMTRAK SERVICE WILL PLACE ANOTHER BURDEN ON OUR ALREADY OVERCROWDED HIGHWAY SYSTEM".

MAYOR JOSEPH GRENCHIK OF WHITING IS "DEFINATELY OPPOSED TO THE LOSS OF AMTRAK DOLLARS". HE SAID THAT THE SERVICE IS IMPROVING, AND IS NOW SUBSIDIZED 40% INSTEAD OF 50%. THE PROPOSED ELIMINATION OF AMTRAK SUBSIDIES IS IN HIS OPINION, "FOOLISH".

MAYOR DAVID BUTTERFIELD OF VALPARAISO SAID "500 PEOPLE WILL BE MADDER THAN HELL" OVER THE ELIMINATION OF THE AMTRAK LINE AND DIRECTED ME TO A COMMUTER WHO DESCRIBED THE SURVEY SHE AND SIX OTHERS CONDUCTED LAST JUNE. THE PASSENGER SURVEY ESTABLISHED THAT THE AMTRAK COMMUTERS ARE VITALLY INTERESTED IN THE SERVICE THAT CARRIES THEM TO THEIR JOBS EVERY DAY. THEIR MAJOR PROBLEM IS THE FARES WHICH IN THEIR OPINION ARE "EXTREMELY HIGH COMPARED WITH OTHER COMMUTER SERVICES". TABLE 4 SUPPORTS THIS CONTENTION. A SECOND PROBLEM IS THE INCONVENIENT SCHEDULES DUE TO THE VERY LIMITED SERVICE. ONE CONCLUDES THAT THE 500 COMMUTERS HAVE NO REASONABLE ALTERNATIVE. THE MAJORITY OF RIDERS WOULD BE SEVERELY INCONVENIENCED IF THEY WERE FORCED TO USE OTHER TRANSPORTATION.

TRANSIT PASSENGERS AND TRANSIT OPERATOR EMPLOYEES WOULD NOT BE THE ONLY ONES HARMED BY THE PROPOSED BUDGET. SOME RELATED INDUSTRIES IN THE CALUMET REGION WOULD FEEL THE EFFECT. THIS AREA IS ONE OF THE LARGEST CLUSTERS OF RAIL CAR PARTS AND ASSEMBLY MANUFACTURING IN THE COUNTRY. THAT CLUSTER HAS BEEN MADE VERY FRAGILE THROUGH RECENT PLANT SHUTDOWNS. THE LINKAGES AND ECONOMIES OF SCALE THAT ARE NOW PRESENT WOULD BE LOST AS MORE PLANTS SHUT DOWN. FOR FURTHER DETAIL PLEASE REFER TO THE WRITTEN TESTIMONY TO BE SUPPLIED BY THE CALUMET PROJECT FOR INDUSTRIAL JOBS.

In conclusion

SLASHING CAPITAL PROGRAMS AND LOPPING OFF THE TRANSIT OPERATING ASSISTANCE IS A MISTAKE. THE REDUCTION, IN THOSE AREAS IMPACTS MOST HEAVILY ON THOSE LEAST ABLE TO PAY. CITIES AND THEIR RESIDENTS ALREADY BEAR A BURDEN. PUBLIC AND PRIVATE TREASURIES ARE NOW STRAINED. WE BELIEVE PUBLIC TRANSPORTATION TO BE AN ESSENTIAL AND NATIONALLY BENEFICIAL SERVICE. IN SEPTEMBER 1984, TRANSPORTATION SECRETARY, ELIZABETH DOLE ISSUED A REPORT TO CONGRESS "THE STATUS OF THE NATION'S LOCAL PUBLIC TRANSPORTATION: CONDITIONS AND PERFORMANCE". THE REPORT STATES IN CHAPTER II, "EVIDENCE ON RIDERSHIP STRONGLY SUPPORTS TRANSIT'S ROLE IN PROVIDING BASIC MOBILITY TO CERTAIN GROUPS. LOWER INCOME PEOPLE AND THE LEAST ADVANTAGED GROUPS ARE DISPROPORTIONATELY REPRESENTED AMONG TRANSIT'S PATRONS". THESE PEOPLE ARE SAID TO BE TRANSIT DEPENDENT. THE REPORT GOES ON TO SAY, "TRANSIT'S SOCIAL ROLE OVERLAPS ITS ECONOMIC ROLE IN CONNECTION WITH ITS PROVISION OF AN INFRASTRUCTURE FOR URBAN WORK TRIPS . . . TRANSIT SUBSIDIES ARE IN FACT A HELPING HAND TO THE WORKING POOR."

THE EFFECTS I HAVE TRIED TO DESCRIBE ARE A SMALL PICTURE OF THE NATIONAL IMPACT OF TRANSIT FUNDING REDUCTIONS. THE AMERICAN PUBLIC TRANSIT ASSOCIATION HAS COMPILED A WEALTH OF INFORMATION, A SUMMARY OF WHICH I INCLUDE IN TABLE 5 FOR YOUR ENLIGHTENMENT. IT SAYS THAT OVER 200,000 JOBS WILL BE LOST AND 88% OF THE TRANSIT SYSTEMS WILL CUT SERVICE. CONSIDER THE NATIONAL IMPACT AS YOU, IN CONGRESS, DEVELOP YOUR BUDGET PROPOSALS. MORE IMPORTANTLY CONSIDER THE LOCAL IMPACT, HERE AT HOME. THANK YOU.

TABLE 1

NORTHWEST INDIANA

1983 PUBLIC TRANSPORTATION RIDERSHIP SUMMARY

(January 1 to December 31 unless otherwise noted)

Operator	1981	1982	1983	81-82 % Change	82-83 % Change	81-83 % Change
Amtrak, Valparaiso-Chicago	223,800	250,200	223,789	11.8	(10.5)	(1.0)
Chicago South Shore & South Bend R.R.	2,431,512	2,152,751	2,520,741	(11.5)	17.1	3.7
East Chicago Bus Transit	365,790	378,252	405,554	3.4	7.2	10.9
Gary Public Transportation Corp.	2,899,360	2,937,273	3,809,292	1.3	29.7	31.4
Hammond Inter-City System	321,239	314,213	324,682	(2.2)	3.3	1.1
Hammond Yellow Coach	132,000	110,000	120,000	(16.7)	9.1	(9.1)
V.I.P. Coach-Justak Corp	70,000	75,364	72,356	7.7	(4.0)	3.4
Lake County Economic Opportunity Council	145,308	148,082	159,970	1.9	8.0	10.1
Municipal Coach, Michigan City	153,465	189,375	196,922	23.4	4.0	28.3
*North Township Transit System	167,529	1,843	-0-	(98.9)	--	--
Fixed Route	46,718	-0-	-0-	--	--	--
Express Shuttle	118,800	-0-	-0-	--	--	--
Dial-a-ride	2,011	1,843	-0-	(8.4)	--	--
Trade Winds Rehabilitation Center	134,222	123,223	97,977	(8.2)	(20.5)	(27.0)
LaPorte TransPorte	125,079	133,148	118,085	6.5	(11.3)	(5.6)
Bus - 69%	87,412	92,151	81,479	5.4	(11.6)	(6.8)
Taxi - 31%	37,667	40,997	36,606	8.8	(10.7)	(2.8)
Portage Township Senior Center	-0-	1,814	9,763	--	102.8	--
TOTAL	7,169,304	6,818,538	8,059,131	(4.9)	18.2	12.4
Local Fixed Route	3,911,651	3,952,261	4,854.535	1.4	22.8	24.1
Elderly & Handicapped	281,541	277,962	267,710	(1.3)	(3.7)	(4.9)
Commuter	2,857,312	2,588,315	2,936,886	(9.4)	13.5	2.8
Bus	202,000	185,364	192,356	(8.2)	3.8	(4.8)
Rail	2,655,312	2,402,951	2,744,530	(9.5)	14.2	3.4
Other	118,800					

* Did not operate in 1983

NIRPC

TABLE 3

PUBLIC TRANSIT FINANCIAL SUMMARY FOR 1984

System	Operating Expenses	Revenues	Percent Rev./Exp.	Deficit	FEDERAL ALLOCATION Amount	Percent Deficit	Percent Expenses
Gary PTC	$4205282.00	$2085149.00	49.60	$2120133.00	$1060066.00	50.00	25.20
East Chicago	670720.00	.00	.00	670720.00	321060.00	47.90	47.90
Hammond	917538.00	130018.00	14.20	787520.00	361998.00	46.00	39.50
NICTD (South Shore)	12200000.00	6621959.00	54.30	5578041.00	2150828.00	38.60	17.60
LCEOC	656713.00	254699.00	38.80	402014.00	201007.00	50.00	30.60
Trade Winds	464665.00	73220.00	15.70	391445.00	100734.00	25.70	21.60
LaPorte	296086.00	65277.00	22.00	230809.00	115404.00	50.00	39.00
Michigan City	362862.00	71073.00	19.60	291788.00	145894.00	50.00	40.20
TOTAL	19773866.00	9301395.00	---	10472470.00	4456991.00	---	---
AVERAGE			47.04			42.60	22.54

NIRPC

TABLE 4

COMMUTER FARES TO CHICAGO FROM NORTHWEST INDIANA

DISTANCE	AMTRAK			SOUTH SHORE R.R.			COMMUTER BUS		
43-57 Miles	Valparaiso	1-Way	Monthly	Michigan City	1-Way	Monthly	Cedar Lake	1-Way	Monthly
		$6.00	$172.00		$5.00	$135.00		$4.75	$170.00
30-32 Miles	Gary	1-Way	Monthly	Gary	1-Way	Monthly	Griffith	1-Way	Monthly
		$4.25	$134.00		$3.40	$ 91.80		$4.00	$100.00
20-22 Miles	Hammond	1-Way	Monthly	Hammond	1-Way	Monthly	Hammond	1-Way	Monthly
		$3.00	$95.00		$2.75	$ 74.25		$3.00	$100.00

Trans-Info Center, NIRPC

TABLE 5

NATIONAL IMPACT OF TRANSIT FUNDING REDUCTIONS

- LOSS OF SUPPORT FOR OVER 200,000 JOBS
- LOSS OF $8 BILLION IN PRIVATE BUSINESS REVENUES
- 20% OF TRANSIT SYSTEMS CONSIDER SHUTDOWN
- 82% WILL RAISE FARES
  5 IN 10 WILL INCREASE 50% OR MORE
- 88% WILL CUT SERVICE
  7 IN 10 WILL CUT 20% OR MORE
  1 IN 3 WILL CUT 50% OR MORE
- 70% WILL FOREGO BUS PURCHASES WHILE 30% OF THE FLEET IS OVERAGE
- 30% WILL FOREGO MAINTENANCE FACILITY REHAB OR REPLACEMENT WHILE 33% OF FACILITIES ARE OVER 40 YEARS OLD
- 46% OF SUPPLIERS WILL CLOSE OFFICES OR PLANTS
- 87% OF SUPPLIERS PROJECT LAYOFFS
- 45% OF SUPPLIERS ANTICIPATE WITHDRAWAL FROM TRANSIT MARKET

APTA

Senator QUAYLE. Mr. Williams, do you and Mr. Gray want to testify individually, or——

Mr. WILLIAMS. I am not sure. I am here to testify on behalf of the renewal of VRA.

STATEMENT OF BRUCE WILLIAMS, INTERNATIONAL REPRESENTATIVE, UNITED AUTO WORKERS

RENEW VOLUNTARY RESTRAINT AGREEMENT

My name is Bruce Williams, international representative for the United Auto Workers, and I am here to testify on behalf of the renewal of the Voluntary Restraint Agreement.

Senator, outside of the State of Michigan, Indiana has more auto and auto-related jobs than any other State in the country. Auto workers in Indiana make engines, hoods, trunk lids, radios and wiring, harnesses, they make transmissions and differentials, and they make windshield wipers, steering wheels, axles, and wheel assemblies.

Since 1980 auto worker employment in this State alone has fallen by more than 300,000 workers, and this does not count the jobs lost in related industries, such as steel, aluminum, plastics, glass, rubber, and the like.

I personally have been involved in the closing of several plants in this corner of the State, at a loss of some 3,500 jobs. Probably the largest closing was the Budd Stamping Plant, which is located in Gary, IN, which is probably not more than 10 miles of where we are meeting today. That closing entailed the loss of some 2,000 jobs, jobs which are never expected to be regained.

Senator, if you have never experienced a plant closing, believe me, it is not a pretty sight. I have seen good, hard working people reduced to the scrap heap of society, all because they want to work, but they cannot, because the jobs just are not there. Believe me, Senator, it is not a pretty sight.

Now, the current administration is saying that they cannot find anyone making a case for continuation of quotas, they cannot seem to find anyone in favor or renewing the Voluntary Restraint Agreement.

INCREASED AUTO IMPORTS ANTICIPATED WITHOUT VRA RENEWAL

Well, Senator, somebody up there is just not listening. Recently the Japanese Government has indicated that without renewal of the Voluntary Restraint Agreement, they would anticipate an increase of auto imports in the United States of someplace in the neighborhood of 650,000 automobiles.

However, it is a well known fact that the Japanese auto industry has the unused capacity to produce an additional 2 million cars per year, and possibly more.

Due to the strength of the U.S. dollar, and the declining value of the Japanese Yen, Japan already enjoys a $1,500 cost advantage on a $6,000 car sold right here in the United States, and as the competition for this new open market grows within the Japanese auto industry, it is unlikely that the Japanese Government will be able to convince Japanese automakers to increase production by a mere

650,000 units, it will probably be closer to the 2 million units that I just alluded to.

Consequently, with the increase of the Japanese automakers' production by virtue of the fact that every other auto producing country in the world limits Japanese access to their markets, the United States undoubtedly will become the dumping ground for those 2 million cars.

LIFTING VRA WILL RESULT IN LOSS OF MANY JOBS

Now, if the Voluntary Restraint Agreement is not renewed, we in the UAW believe, Senator, that we will lose approximately 1 million jobs in the next 5 years. Lifting the Voluntary Restraint Agreement will result in the loss of at least 200,000 jobs almost immediately, because the Japanese market's share in this country, we firmly believe, will surge to 30 percent, and possibly 40 percent, and of course, a vast number of those lost jobs will be jobs that are lost right here in the State of Indiana.

Since 1981, massive modernization has taken place in the U.S. auto industry, while the Voluntary Restraint Agreement has been in place. This was done to maintain the domestic car industry's competitiveness. However, if the Voluntary Restraint Agreement is not renewed, much of the capital expenditure which has been allocated to bring things into line will no longer remain.

We further face a danger that the production of small cars will be abandoned in this country, meaning a loss of even more jobs.

LIMIT JAPAN TO 17 PERCENT OF U.S. AUTO MARKET

The UAW is urging the Reagan administration to seek continuation of the Voluntary Restraint Agreement at a 17-percent share of the domestic car market.

As you recall, that was the goal in 1981 when the agreement was achieved. Unfortunately, it was based on a numerical limit of 1.68 million cars, which resulted in Japan's share of the U.S. market far exceeding 17 percent, because of the recent depression we have just experienced.

Yes, the Voluntary Restraint Agreement must be continued, and it should limit Japan to 17 percent of the U.S. auto market, rather than a specific number of automobiles. This type of market share approach will, in fact, protect not only the American worker, and American jobs, but it will also protect the American economy in the future, if there should be any future economic downturn.

Thank you very much.

Senator QUAYLE. Thank you.

Mr. Clifford E. Gray, Jr.

STATEMENT OF CLIFFORD E. GRAY, JR., CHAIRMAN, UNITED AUTOMOBILE WORKERS LOCAL 1226

Mr. GRAY. My name is Clifford E. Gray, Jr. I am the chairman of UAW local 1226, and I want to thank you for allowing me to speak.

I am here today on behalf of thousand UAW members currently working in Chrysler's Electrical Manufacturing Plant. Regrettably, I am also here today to speak for over 2,000 of our members who no longer have jobs at that facility.

CREATING JOBS MOST SIGNIFICANT ANSWER TO BUDGET PROBLEM

After listening to the previous speakers, creating jobs seems to be the most significant answer to the budget problem, and maybe the deficit. You have heard all of the facts and figures, and hopefully a story of one plant will also tell an important part of the story.

In 1976, there was a total employment at our plant of 3,200 people. Even though the automakers just reported huge profits, 2,000 of our people are now not back at work, and it was not because of new technology. These people and their families are facing permanent disaster, without some positive action by this Congress. The future appears no brighter. These job losses at our plants are directly related to Japanese imports, totaling 825 jobs, 825 people who should now be working, at just one plant, and one division of one American automaker, and using the President's own figures, just a 1-percent improvement in unemployment would make available $25 billion in the Federal coffers.

And in addition to these 825 people, it would mean an annual increase of $19.5 million in wages, $5 million in Federal taxes, $2.7 million in Social Security taxes, $500,000 in State and local taxes, and $350,000 in estimated sales tax. Those figures are just now from the people involved in our plant.

CHRYSLER DISCUSSING PURCHASE WESTERN ELECTRIC PLANT

Along with all of the bad news, there is some good news, there is some glimmer of hope on the horizon. Just across the street from us—but generally it will take your help for it to occur—a situation now presents itself where American workers, more specifically, Indiana workers, can have a brighter future, Chrysler Corp. is now having discussions with AT&T about purchasing the Western Electric plant in Indianapolis for the purpose of converting it into an assembly plant for minivans.

I must note that 8,000 people used to work at that Western Electric plant, making telephones, but that business has also been lost to overseas competitors. If Chrysler would buy the plant, it would create 4,000-plus jobs, at that plant alone, and in addition, estimates have been made that 4,000 to 8,000 other related jobs would also be created. But there are four items that have to fall into place before this can happen.

The first three items are obtainable, but they will not be if No. 4 is not accomplished. Credit has to be extended, or Chrysler will not be able to build this plant. With the number of jobs at stake, the answer should be yes, but only you can help make the answer yes.

Chrysler stated last week, on national television, that they must spend $10.5 billion on their facilities to remain competitive. They also said they want to spend it in the United States, to create jobs, but will be forced to go offshore, if VRA is not extended.

CHANGE LAWS TO HELP AMERICAN INDUSTRY AND JOBS

It would be far better to help decrease last year's enormous trade deficit with Japan by putting all our people back to work, than anything I have heard come out of—Japan also states that patient negotiations with us may convince our Congress to change the U.S. laws. I trust they will be proven wrong. Any change in U.S. laws must come in the form of help to American industry and jobs.

The future of American heavy industry hangs in the balance during the current session of Congress. Action must be taken to halt the drain of American jobs, and provide hope for the secure industrial future of the United States.

Thank you.

VOLUNTARY RESTRAINT AGREEMENT SHOULD BE CONTINUED

Senator QUAYLE. Thank you very much, Mr. Gray.

I feel the witnesses, Mr. Parton and Mr. Burns hit on that. I am with you all on that. I have encouraged the President privately, and said publicly that we ought to continue the voluntary restraint agreement.

The one thing that really gripes me about lifting it now is that we are getting absolutely no concessions from Japan. They can sit there and flood our markets, we will have about a $30 billion trade deficit with Japan, and all of a sudden it appears a final decision has not been made, let the record be clear, but it appears that we are moving in the direction of giving this up without getting anything in return. That is not negotiations, if I, with you, sit down at the bargaining table, and unilaterally give something without getting anything in return.

Furthermore, there is some disparity, for example, the commodity tax they have in Japan. There are a lot of things that should, in fact, be examined.

So I will continue to push on this voluntary restraint agreement. I think it is in the best interest of our country.

I might add a little footnote. I wish the auto industry, from the employers' side, was as united as UAW and some of the steelers on the employees 'side, because you know, you are getting mixed messages out of there. Chrysler is all for it, Ford is apparently for it, but you know, Chevrolet and GM is off the cliff, they are saying they do not want it. There is obvious reasons for that, but it does hurt a little bit, because it is not anything that you can do anything about.

Maybe you can sit down and talk to them the next time you meet, and mention that one Senator is a little concerned about the fractionation of the opinion of what we ought to be doing.

Mr. MORROW. I think, Senator, if I may, Roger Smith, president of "Generous Motors," has a motive behind his insistence that it not be removed. Of course, he does have a captive audience in the Japanese automotive manufacturers, and that is probably one of the things that bothers me most of all, with that captive audience and if the VRA is lifted, of course, Chrysler, Ford, American Motors, have no alternative but to go offshore, and General Motors will lead the way offshore, and I guess the name of the game is jobs, and we want to try to keep them here in the States.

And I thank you.

CUT SPENDING OR RAISE TAXES

Senator QUAYLE. I want to just ask one question.

I sort of want to get back to the budget, speaking of taxes, as one final question.

If you would be asking your rank-and-file people of your organization, say, "all right, here is the budget out there, we have got these big deficits," is their feeling in looking at that deficit out there, in Washington, of $200 billion, do they feel that the Congress ought to go along with the administration, and cut spending as a way to reduce that deficit, or do you think that they are willing to say OK, we know we have got to have a lot of these services: transportation, health the job training aspect. They are aware of the income security programs that go along with it. What would be their response? If I had a chance to sit down in the halls with them, and ask what do we do, cut spending, or raise taxes?

What would they be telling you, Mr. Sierra?

I am going to ask each one of you, if you could sort of look into it, the way I am trying to do, and that is getting a feeling of what they would be saying, if I put that question, and I want to put it as firm as possible, if you cut anybody's taxes, sure, they say I do not want taxes increased, but quit spending, cut somebody else's spending, but nothing from some of the things the taxpayers 'money does, what would he be telling you?

NEED FOR MORE CAUTIOUS AND PRUDENT SPENDING

Mr. **Sierra**. We have had some meetings, not only in Indiana, but in various States, with reference to this matter, and it seems as though the popular opinion of our membership, in Ohio; in Buffalo, NY; and especially here in Chicago, especially here in Indiana, is that we want to see this deficit reduced, we want to see this budget cut, and the reason for that is that every time we negotiate a pay increase, we do not get it, it is going to Uncle Sam. Twenty-six to thirty percent of our hourly wage goes to Uncle Sam, and to do something, and we would not have to ask for these wage increases, and continuously go in for them, to upgrade a standard of living for our people if we did not have to pay as much taxes.

And especially in our longshoring case, because one-third of our overtime, when you start getting in time and a half money, you are talking even greater amounts of money for taxes, less take home. The incentive to work overtime is less.

And interest rates, it has got to affect the interest rates. When the Government does not need the money, that means the money is returned back to the private sector. When it is returned back to the private sector, the interest rates are going to come down. When they come down, my people can afford to start buying things, cars, homes, et cetera.

Senator **Quayle**. So you think they would focus in more on the spending cuts, rather than revenues?

Mr. **Sierra**. We want to see some prudent spending. I want to see some very cautious and prudent spending. There are certain areas that none of us want to see cuts, Social Security, Medicaid, things of this sort, for the elderly, these people have paid their dues, they are entitled, and we all agree on that, but there are some other areas for a little more prudence in spending, of the military, as the mayor stated. In the military, who needs the lieutenant colonels?

Senator **Quayle**. I imagine we could do with a few less.

Mayor **McDermott**. If you had a corporation, you were running a company, it would be a job you would phase out.

Senator **Quayle**. Actually, since you brought that up, I really think when you get down to cutting defense spending, that is where we ought to cut it.

Mayor **McDermott**. They are doing it with the autoworkers and steelworkers.

Mr. **Morrow**. Maybe we ought to do it some other places, get some of that money back into the economy where we can create our own——

Senator **Quayle**. Mr. Parton, what would your folks be telling you to tell me?

NOBODY WANTS ANY TAXES RAISED

Mr. **Parton**. Certainly, I think, Senator, that the statement that the Democratic Presidential nominee made is one of the first things that is going to be raised, and the outcome of that is certainly nobody wants any taxes raised.

Senator **Quayle**. You then got the message.

Mr. **Parton**. Certainly, the budget needs to be cut, by cutting spending, and I guess it is depending on who you talk to, and what their individual thing is.

I often tell a story, that when we went three rounds in negotiations with the steel industry in 1983, and they were saying, and producing documents and records, that they were in financial difficulty, they were a troubled industry, they needed some help, and some accommodations from the steel unions, every time I would go to Pittsburgh, and we would take a run at it, I would come back and people would say, well, maybe we have got to give up something.

And you say, what is it. I never forget being over in Gary, and this one gentleman said, you tell McBride to give up that dental plan, and he smiled, and he did not have a tooth in his head.

It depends on who you are talking to. The laid off steel workers know there is a lot of those, they will not be back in the steel industry, and they certainly do not want to see none of the JTPA programs cut off, because they see those as a vehicle of getting back to steady employment.

It depends on who you talk to. You hear a lot of people, as Ray said, you hear a lot of people talking about the defense budget, and I think perhaps if you watched 60 Minutes last night, certainly Andy Rooney talked about a number of those people who worked over there, and there was, I do not know how many lieutenant colonels, but certainly it just appears that that was over $1 billion, just for lieutenant colonels' pay. And he was saying, get rid of a few of those.

So depending on who you are talking to, certainly I do not think there is anybody in the work force at this particular time that is saying raise taxes as a way of lowering the budget.

I think it must be cut, I feel the same as they do, it has got to be cut, but again depending on who you are talking to, what they want to get cut.

Senator **Quayle**. Mr. Gray?

Mr. **Gray**. Basically, I feel the same as they do. I feel that our people are not looking for tax increases, definitely, and you are going to have to have spending cuts, but to everyone's satisfaction.

But I am convinced, I am seeing it, just from the figures in my own plant, and the other figures, big debit in this thing is that it is going to help to create jobs, there is just no mistake about it. It is there. All you have to do is to get these people back to work, and some of these conditions are going to satisfy themselves, not magically, but they are going to satisfy themselves.

KEY IS TO CREATE JOBS

Senator **Quayle**. Almost all of the economists say the key is to create jobs. I think there are a few of those out there too, that say you have to reduce the size of the deficit. Some out there say, well, do not really worry about that deficit.

I think that is irresponsible, to say that. One could say, that is fine, spend all I want to, and cut out more taxes, that would be the popular thing. I think it would be the proper thing to wrestle with it.

I feel, as I go around and talk to people, the message is, go at it. Make it fair, whether it is lieutenant colonels, or whatever the case may be, include defense as well as nondefense.

Mayor McDermott was fairly straightforward. Revenue sharing, he wants to put that out, he said. I understand that he is more interested in keying these programs into the economic development. I think the expectation is out that there is going to be less, but there is certain essential services.

One of the things I have been involved in is this whole training issue, and looking at how are we going to get these people trained, retrained, giving them the skills, because they want to work. People want to work. That is the bottom line. They do not want to sit home and cash a welfare check. They want to work. They are proud of their families, their ability. That is what they want to do.

That is our challenge, to provide those opportunities.

At this point I would like to make part of the record a number of letters and statements submitted by individuals who would like their views considered.

Gentlemen, thank you very much.

And with that, it is 10 minutes to 5, and the hearing is concluded.

[Whereupon, at 4:50 p.m., the hearing was concluded.]

[The following letters and statements were submitted for the record:]

Whirlpool
CORPORATION

EVANSVILLE DIVISION • EVANSVILLE, INDIANA 47727

ROBERT E. BARTLEY
DIVISION VICE PRESIDENT

February 12, 1985

The Honorable Dan Quayle
United States Senate
Washington, D.C. 20510

Dear Senator Quayle:

Although I was unable to testify at your hearings in Evansville on taxation and fiscal policy, I would like to present an overall viewpoint which we would like you to consider.

Whirlpool Corporation has conducted a preliminary analysis of the U.S. Treasury Department's tax reform plan to amend the federal tax code.

While we firmly recommend that the first priority for the U.S. is reduction of federal deficits through restraint on spending, it is our studied opinion that, in our support of fair-share taxation, at this time the flat tax approach, with some redirections in tax credits and deferred tax programs, appears to be the most equitable approach.

To the extent we have studied the existing flat tax proposals (e.g., Treasury's, Bradley-Gephardt, or Kemp-Kasten plan), we believe they are a reasonable beginning toward greater tax equity.

As a company that has historically paid a large share of earnings to federal taxes, we strongly support tax reform efforts that champion fair-share taxation policy. Whirlpool's effective tax rate has averaged nearly 45.4% a year since 1974, a fact confirmed by Standard and Poor's.

As with individuals, corporations also use the services of government. We all benefit from government-financed economic, national defense and social programs. Therefore, it is appropriate that all corporations also contribute a proportional share of tax revenues to help support the services they receive.

However, we strongly urge the Administration and the Congress to re-examine the advisability of taxing employee benefit programs (as proposed in Treasury's and some other proposals) which have so ably and efficiently served the financial and security needs of many U.S. citizens. Taxation of benefit programs could do extensive damage to successfully functioning profit-sharing and other existing plans.

If you have further questions, please let us know.

Sincerely,

Robert E. Bartley

Robert E. Bartley

pjp

bda corporation
5640 Professional Circle
P.O. Box 41428
Indianapolis, Indiana 46241-0428

(317) 243-6611

ARCHITECTS-ENGINEERS

Ronald L. Botner, A.I.A.
Indiana Reg. No. 1659
President

David B.H. Best, R.L.S.
Indiana Reg. No. 8568
Vice-President

FEB 08 1985

February 5, 1985

Honorable Dan Quayle, Senator
Room 447
46 East Ohio
Indianapolis, Indiana 46204

Dear Senator Quayle:

I am writing this for inclusion in the official record of the United States Senate Budget Committee.

I am asking that the Section 515 Program for Rural Rental Housing be preserved, and that funds be provided in the 1986 budget.

This program answers the vital need of providing housing in rural areas where a large percentage of sub-standard housing exists.

We know that 40% of Americans depend on rental housing and that the median annual income for renters is $12,500 as opposed to $25,000 for home owners. Thus, an end to this program will be very detrimental to many of our fellow citizens, including elderly, who reside in rural America and are existing on moderate to low incomes.

We all know that moderate income people, including the elderly, living in sub-standard homes are saddled with very high upkeep costs especially the cost of energy to heat their homes. These increasingly high costs drive an already marginal life style even lower.

We have found that by providing these people with a small, energy efficient apartment has in most instances meant a "new lease on life" getting them out from under those financial burdens associated with large older houses and higher energy costs.

Sincerely,

Ronald L. Botner

RB/nw

Ronald Botner, AIA

1816

City of Whiting Indiana
Joseph B. Grenchik, Mayor

1443 119TH STREET
P.O. BOX 591
WHITING, INDIANA 46394
(219) 659-7700

25 February 1985

The Honorable Dan Quayle
Senator from Indiana
Federal Court Building
507 State Street
Hammond, Indiana 46320

RE: Senate Budget Committee
Hearing-Hammond, IN-2/25/85

Dear Senator Quayle:

This letter will tell you of my grave concern regarding the administration's proposal to eliminate federal funding for AMTRAK in Fiscal year 1986.

In my travels to other countries, I could not help but observe a strong national railway system even in countries not as financially sound as the United States. Doing away with AMTRAK funding would put the United States into a second rate category!

It would be my suggestion that AMTRAK be placed under the "Wing" of the Defense Department (do you remember the troop train of previous wars?).

Then the question of funding of this VITAL defense facility would never arise. I would deeply appreciate your concerted effort to insure the U. S. rail system be maintained on a par with our neighbors across the seas.

Respectfully,

Joseph Grenchik

Joseph B. Grenchik
Mayor

JBG:pmg

APPALACHIAN COUNCIL, INC. / A GREAT UNION
AFL-CIO JOB CORPS
/ OUTREACH, SCREENING & PLACEMENT PROJECT

February 15, 1985

Dan Quayle
U. S. Senate
524 Hart Senate Office Building
Washington, DC 20510

Dear Senator Quayle:

Let me begin by congratulating you on recognizing the importance of the current debate on the proposed fiscal 1986 federal budget. The urgent need to come to grips with the federal debt is, in my opinion, the most important issue currently facing the United States Congress and the future of America. Your concern was evident by the budget hearings that you held in Indianapolis February 11, 1985.

I would like to take this opportunity to express some differing information from that made available to you by one of your witnesses, one Marsha Oliver, President of the Indianapolis Private Industry Council. Ms. Oliver, responded to your question regarding the relationship between her office and the Federal Job Corps Program, in a not entirely accurate manner. Ms. Oliver claimed that her office had never had any communication with Job Corps or had never received any referrals of former Job Corps students into the JTPA System in the Indianapolis area.

The AFL-CIO Appalachian Council beginning May 1, 1984, became responsible (through a contract with the U.S. Department of Labor) for placement and recruiting assistance to Indiana residents terminated from the Job Corps Program. In late May, 1984, the Appalachian Council opened an office in Indianapolis for the purpose of helping to fulfill the provisions of the D.O.L. contract.

In August, 1984, I had a meeting with Ms. Oliver's recruitment coordinator, Ms. Cynthia Springer. Ms. Springer informed me of the procedures to be followed regarding applicant referrals and claimed that I would be made aware of future training programs and other pertinent communications distributed by the office of the Indianapolis Alliance for Jobs. To date, I have received no communications from I.A.J. I have, however, referred numerous former Job Corps members to training offices within the Indianapolis JTPA system, including 70,001 Pre-Employment/G.E.D., Indianapolis Plan and Youth Works. I have also referred young persons directly to the Indianapolis Alliance for Jobs office.

APPALACHIAN COUNCIL, INC. / A GREAT UNION
AFL-CIO JOB CORPS / OUTREACH, SCREENING & PLACEMENT PROJECT

My colleagues within the Appalachian Council have likewise been working with other JTPA administrative entities in further assisting former Job Corps members around the state of Indiana.

I write this letter not to create a controversy or to imply harsh feelings toward Ms. Oliver, her staff or the JTPA system; but only to clear the question of partnership and communications between JTPA and the Job Corps in both Indianapolis and throughout the state.

Finally, I would like to express my concern for the future of the Job Corps program as a part of the Employment and Training Administration's assistance outlays for hard-core youth in America. While the types of training provided might be offered through some other program, I believe that the residential move for the vast majority of Job Corps members proves to be the most beneficial aspect of the whole Jobs Corps experience. Many young people have nothing at home to motivate themselves to higher personal achievement. I believe the Job Corps environment truely stimulates these young people to a greater sense of personal pride and accomplishment.

Thank you so much for your time and concern.

Sincerely,

Tim Joyce

Timothy C. Joyce
Placement and Recruiting Coordinator
AFL-CIO Appalachian Council

cy: Marsha Oliver

AFL-CIO
Tim Joyce
140 W. Vermont St
Indianapolis, In 4620

February 20, 1985

The Honorable Dan Quayle
Hammond Office
5500 Sohl Avenue
Hammond, IN 46320

Dear Senator Quayle:

I am writing on behalf of the Northwest Indiana residents who utilize the Valparaiso-to-Chicago commuter service operated by Amtrak. We are aware that President Reagan has proposed elimination of federal subsidies to Amtrak and are consequently concerned about the continued operation of these trains which are needed in order for us to travel to and from Chicago to earn our livelihoods.

I have been advised that you are conducting a hearing in Hammond on February 25, regarding the federal budget. While I realize that the matter of Amtrak subsidies is but a small part of the subject matter to be covered at the hearing, and further, that our commuter service is only a part of the Amtrak consideration, I would like to submit this letter as written testimony to be entered into the hearing proceedings.

On June 18, 1984, out of concern for the continued operation of Amtrak's Valparaiso-to-Chicago service, we conducted a ridership survey to obtain the passengers' thoughts and ideas regarding the service.

A summary of the results is enclosed. 471 people rode the trains that day, and of those, 351, or approximately 75%, responded to the survey. These results have been forwarded to Amtrak from Congressman Hillis' office. Following are some highlights of the survey, along with an update on more recent developments.

Fare Structure

The single greatest detriment to maintaining and building ridership, as expressed by the passengers, is the fare structure. The fares are extremely high as compared with any other commuter service in this area, and Amtrak continues to raise the fares twice a year. In the year prior to the survey alone, Valparaiso to Chicago monthly tickets had increased

13.9%. Since Amtrak began operating this service in October, 1979, Valparaiso riders had suffered a 91.1% increase in monthly fares. Similar increases have been experienced by riders from other stations, although at a slightly lower rate of increase.

Many passengers noted that our ridership declines following each fare increase. The sentiment of the majority was that if Amtrak would lower fares and stabilize them, ridership would increase, and revenues could increase accordingly.

Many riders saw frequent, substantial fare increases as an Amtrak maneuver to drive passengers off these trains so that the service could be discontinued. This had also long been a sentiment of mine.

Update: Amtrak responded that, while they did not deem it appropriate to lower fares at this time, they would attempt to stabilize the fares insofar as possible. Although single-ride tickets were increased in November or December of last year, the prices of multi-ride tickets were not raised at that time.

Frequency of Operation and Scheduling

Other issues seen as problems by riders are the limited schedule (only two daily round trips, compared with the South Shore which operates trains throughout the day), and the evening schedule itself. A significant number of people would like an earlier departure time, while some would prefer later evening return service. An earlier departure time for the first train should, according to this survey, force a significant number of riders to utilize the later evening train, which at that time, experienced very light ridership. My comment at that time was that this could lessen Amtrak's contention that this train does not carry enough passengers to justify its continued operation. It would also be hoped that new riders would begin using the earlier train because of an earlier departure time.

Update; Effective October 29, 1984, the earlier train began departing Chicago at 4:55 p.m., which is 10 minutes earlier than the previous schedule.

Although I do not have accurate current ridership figures, due to a combination of severe weather and an unusually high number of mechanical failures within the past two weeks, there is no doubt that ridership of the later train has increased dramatically since the scheduling change.

Advertising and Publicity

Many respondents indicated that advertising this service in local newspapers would help to build ridership. When Amtrak began operating these trains, they pledged to advertise and promote this service. This is something that has never been done. General advertising of cross-country service does nothing to make northwest Indiana residents aware that there is commuter service available between their homes and Chicago. Many people in our area are still unaware that this service exists.

Update: A member of Congressman Hillis' staff was told by an Amtrak spokesperson that Amtrak intended to promote this particular service. However, if they have done anything thus far, I am unaware of it.

Past Ridership

As a point of interest, I would like to mention that in the early 1970s, when Penn Central operated this service, we had approximately 1,100 daily riders, and this was despite the use of antiquated equipment. A total of 13 (vintage 1920s) cars were used on the two trains, and there was frequently standing room only! Poor service in the past, unreasonable fares and fare increases, and frequent threats of discontinuance have eroded ridership to current levels. (Many left because of well-founded fears of service abandonment under ConRail's operation.) Many of us feel that a significant number of former riders would return to these trains if we had reasonable fares and assurance that the service would continue.

Summary

Senator Quayle, we desperately need the support of our elected representatives in order to maintain this service. The livelihoods of many Indiana families are dependent on these trains and will continue to be so, given the bleak job market in our area. With Congress's help and Amtrak's cooperation, I am sure that we could have a growing commuter service, instead of one threatened with curtailment and possible abandonment due to diminishing patronage and discontinued subsidies. While elimination of federal Amtrak subsidies could have a positive (however minor) effect on the federal deficit, it stands to have a major detrimental effect on Indiana residents who depend on this part of the Amtrak system.

Thank you in advance for your consideration of this matter. If I can provide any additional information, please do not hesitate to contact me.

Sincerely yours,

Mary Beth McRitchie
116 East Woodview Court
Valparaiso, Indiana 46383

(312) 245-3058 (office)
(219) 462-0435 (home)

enclosure

CHICAGO-INDIANA COMMUTER SURVEY

1. Which train do you normally ride?

Morning:	1st train	127
	2nd train	222
	either	2
Evening:	1st train	274
	2nd train	60
	either/not specified	10

2. If you only ride the train one way, what transportation do you use for the other half of your trip? Why do you use this other transportation?

Transportation	Reason	Number of Riders
South Shore (morning)	Schedule	2
Receives ride (morning)	---	1
Van (morning)	Cost saving	1
Amtrak to Dyer (evening)	Closer to home	1
Automobile (evening)	---	1

3. How many days per week do you ride these trains?

328 (92.1%) ride 5 days per week.

What type of ticket do you normally purchase?

Type of ticket	Number	Type of ticket	Number
Monthly	231	Single or 12-Ride	3
12-Ride	77	Pass	2
Single or Round Trip	26	Not Specified	3
12-Ride or Monthly	9		

4. In what city or town do you live?

City/town	Number	City/town	Number
Valparaiso	79	Griffith	2
Portage	6	Highland	4
Westville	1	East Chicago	4
North Judson	1	Indiana Harbor	24
DeMotte	1	Hammond	38
Hobart	44	Whiting	42
Merrillville	6	Schererville	1
Hebron	4	Dolton	1
Crown Point	5	Calumet City	3
Miller	2	Chicago	16
Gary	59		

What Indiana station do you use?

Station	Number	Station	Number
Valparaiso*	82	Gary - 5th & Chase	24
Wheeler	0	Indiana Harbor	33
Hobart	74	Whiting**	28
Gary - Broadway	34	Hammond**	77

* Includes 1 Valparaiso to Indiana Harbor passenger

**Many indicated interchangable usage of Whiting and Hammond stations.

5. How long have you [illegible] riding these trains?

Length of time	Number	Length of time	Number
Less than 6 months	29	16 - 20 years	17
6 months to 1 year	28	21 - 25 years	14
1 - 5 years	141	more than 25 years*	8
6 - 10 years	59		
11 - 15 years	50	Did not answer	5

* One passenger has ridden these trains for 42 years!

6. What is your annual income?
The 272 respondents who answered this question showed annual incomes exceeding $7,300,000 per year. Based on an average of the incomes shown the total annual incomes represented by the 471 passengers who rode the trains on June 19 would be in excess of $12,700,00

7. Why do you ride Amtrak, instead of driving, riding the South Shore, a bus, van, etc.? (Many respondents gave more than one reason; each reason was tabulated.)

Reason	Number of responses
Closer/more convenient	309
Dependability	34
Safety	35
Comfort	53
Less expensive than driving/save wear and tear on automobile	34
Don't want to drive/don't drive/do not have automobile	21
Better train/better service	18
Can work on train	5
Dislike South Shore/consider South Shore dangerous	6
Only transportation available	1
Ease traffic confestion/pollution/energy conversation	7
Better parking	5
Pleasant passengers/crew	6
Can get a seat	1
Rides free	1
Did not answer	7

8. If you did not ride Amtrak, how would you travel to and from Chicago?

Alternative	Number	Alternative	Number
South Shore	129	Would quit job or move	23
Drive/Car Pool/Van	90	Listed multiple alts.	44
Bus	17	Don't know or did not answer	41
Illinois Central	7		

What problems would you have in changing to this alternative transportation? (Again, many respondents gave more than one answer; each answer was tabulated.)

Problem	Number of responses
Longer distance to other transportation	119
More time consuming	49
Additional form of transportation necessary	52
Driving/parking too expensive	44
Wear and tear on car	15
Must buy another car	24
Stress of driving/doesn't want to drive/too much traffic	39
Safety	10
Energy waste	4
Doesn't like South Shore/South Shore unreliable	16
Discomfort	9
Car theft/unsafe parking	21
Must stand on South Shore/bus	5
Finding van/car poolers	3
Additional cost	10
Would move or quit job	22
No other transportation available	5
Many/severe problems	10
Few/no problems	14
Did not answer	28

9. Are you satisfied with our service, schedules, fares, etc.?

Yes	75
No	276

If no, what problems exist?

Problem	Number of responses
Cost: fares too high/increased too often	185
No advance notification/justification of fare increases	7
Inconvenient schedule	22
Poor service/unreliable	31
Poor customer service	11
Too many stops	5
No water on train	3

What could be done to correct these problems?

Solution	Number of responses
Lower fares	51
Stabilize fares	17
Change schedule/add trains	45
Weekend service	3
Excursion/"special" fares	2
New equipment/better maintenance	8
Should realize more savings on monthly ticket	2
Better service at ticket counter	2
Government should monitor increases	1
Indiana state subsidy	4

10. If the evening sch[illegible]les were modified, what depart[illegible] schedule would be most convenient for you?

Departure time	Number	Departure time	Number
Before 4:30	16	5:05	73
4:30	22	5:10	14
4:40	2	5:15	45
4:45	45	5:20	2
4:50	10	5:25	1
4:55	4	5:30	50
5:00	37	After 5:30	15

5:05 p.m. train riders: If it were possible to have the first train depart Chicago earlier than 5:05, what is the earliest time that you could catch the train?

Departure time	Number	Departure time	Number
Before 4:30	26	4:55	12
4:30	38	5:00	43
4:40	2	5:05	36
4:45	70		
4:50	30		

11. Do you know any people who used to ride these trains and are now using another form of transportation to and from Chicago?

Yes	263
No	81
Did not answer	7

What transportation do they now use?

Transportation	Number	Transportation	Number
South Shore	109	Bus	18
Drive	41	CTA/Illinois Central	8
Car pool/van	76	Various/don't know	62

Why did they leave these trains?

Reason	Number	Reason	Number
Cost	262	Unreliable service	17
Inconvenient schedule	12	No special monthly rates	2
Chance of cancellation	3		

What could be done to bring them back to Amtrak?

Action	Number of responses
Reduce fares/make fares competitive with other forms of transportation	96
Stabilize fares	14
Improve schedule	14
Add trains/weekend service	13
Better equipment maintenance/dependability	6
Improve station	2
Special monthly rates	2
Nothing	4

12. What might be done [illegible] attract new riders? (Again, [illegible]y respondents gave more than one answer; each answer was tabulated.)

Action	Number of responses
Reduce fares	186
Stabilize fares	22
Add trains	67
Advertise	63
Modify schedule	33
Weekend service	8
Better equipment maintenance/dependability	20
Improve station/parking	7
Offer excursion/"special" rates	7
Club/snack car	7
Allow commuters to use ticket on other Amtrak trains	2
Don't know/did not answer	32

13. Additional comments (other than those previously mentioned)

Fares

Fares have increased; service has not.
Fare increases seen as a maneuver to cause discontinuance.
Wages are frozen; unemployment is up; but fares increase.
100% fare increase in 6 years.
Loss of commuters equates to reduced state revenues in northwest Indiana.
Fares are forcing northwest Indiana residents to move to Illinois.
Should have equal fares regardless of destination.
$3.00 surcharge (for tickets purchased on train) too high.
Should have one-way fare reimbursement upon purchase of monthly ticket.
Other trains have reduced fares (RTA).
Fares are excessive compared with other commuter lines; highest per mile rate in area.
Fares should increase only in relation to increases on other Amtrak trains; commuters are overcharged.
Shouldn't have an increase every 6 months; riders only get raises once a year.
Line could be profitable with Amtrak support and lower fares.
Like Amtrak, but they (Amtrak) are taking advantage of commubers.
Will leave train if fares increase again.

Advertising

Publicize commuter service in northwest Indiana newspapers; also print schedules and fares; emphasize comfort not available on other transportation.
Emphasize job market in Chicago.
Advertise on billboards.
Sell advertising space on trains as buses do (for increased revenue).
Many people in northwest Indiana do not know about these trains.

Operations/Maintenance/Comfort

Improve maintenance of tracks, signals, and equipment to avoid breakdowns/delays.
Modernize heating and air conditioning.
Why are malfunctions not discovered until the last minute, so that trains are delayed?
Better padding on seats.

Service

Conductors friendly/efficient/excellent crew-passenger rapport.
Conductors lax in announcing stops/explaining delays.
Operating costs could be reduced by utilizing crews for fuol day (e.g., add another round trip) or by paying crews only for time worked/pay reasonable wages.
Trains are short enough that they should not have to wait for freight trains/daily passenger trains should have priority over other trains/boats.
Service has improved, but prices are high.
Cut crew size to reduce overhead.
Running time to Hammond longer than it previously was to Whiting.
Trains are not ready on time.

Decreased Ridership

Directly attributable to fare increases.
There has been a recent significant decline in ridership.
Causing much concern about possible elimination.
High percentage of riders lost to car/van pools--not South Shore.

Schedules

Should offer service appealing to shoppers, sightseers, etc.
Both trains are necessary.
If budget is tight, eliminate cars, not runs.
Later evening departure would be attractive due to overtime.
Expand service to South Bend.
Potential employers skeptical (about hiring Indiana residents) due to inflexibility and uncertainty of commuter service.
Consolidate stops (Hammond/Whiting, Broadway/5th & Chase).
More scheduled stops.
Re-open stops in Illinois to increase ridership and revenues.
No advance notice of impending schedule change (5:35 to 5:30); almost left train due to schedule change.
Cut time to Hobart and Valparaiso--have express train or alternate stops--more than 50 minutes riding time considered excessive.
Midday train--1:00 in and 4:00 out.
Made career change based on availability of transportation: would be distressed if transportation weren't available to where jobs are.
Move 5:30 train to 5:45, if impossible to add later train.
There used to be 2 Saturday trains and 1 Sunday train, and they were full.
Current running time is same as 1970 when there were many more stops (and passengers).
Solicit public response.
Don't curtail schedule/train service; this would further discourage potential ridership.

Miscellaneous

No freeloading (Amtrak employees); make them pay their share of fares to eliminate need for fare increases.
What alternative transportation might be available in case of Amtrak stoppage?
Onboard Amtrak representatives visits to act as liaison.
Amtrak may be pushing people away to discontinue line.
Amtrak information tried to tell prospective rider that there was no commuter service to Hobart; also East Chicago.
Has been approached to join van pool solely because of latest fare increase by long-time riders.

Seriously considering c[illegible]pooling for the first time.
Ban smoking.
Service to Miller.
Add bar car; could gross $2-3/passenger per day--also help morale during delays and long r
Need support of elected representatives.
Cutting service inconsistent with government urging citizens to cut auto travel and save gas.
Need public transportation to get to work in order to pay taxes.
Amtrak doesn't care about commuters.
Left South Shore because of lack of seats--likes Amtrak better, but will be forced back to South Shore if fares continue to rise.
High fares--service hardly more than adequate.
Preferred 46-ride coupon book because he/she could get refund on unused coupons in case of travel (or illness).
Increased gas expense plus South Shore ticket would probably equal Amtrak fare and would have service to Chicago and South Bend throughout day, but wants a dependable train in his/her city (Amtrak serves his/her city; South Shore does not).
Poor attitude by Amtrak Union Station employees--act like they don't want us to ride these trains.
If this service is being threatened, Indiana Legislature should look at where tax dollars are being spent. Hammond Station and parking lot cost a lot of money for the few passenger trains servicing it daily.
Other countries are improving rail service--U.S. is slipping backwards.
Any other transportation would add 30-60 minutes travel time from Whiting.
Eliminate food and drink on trains to keep cars cleaner.
High fares and limited schedules make it impossible to compete with South Shore.
Ticket sales service at station is inadequate/employees are impatient.
Have RTA take over line.
Why improve parking lots and shelters at stops rarely used or needing little improvement and continue to raise fares?
Apprise mayors of need for state subsidy and bring issue to a vote of people needing transportation.
(Train service) has improved health, i.e., blood pressure--please keep at least one train running.
Moved to Indiana because of commuter service.
Responsible government should assure citizenry of adequate transportation to work so as not to threaten livlihood and increase burden on unemployment rolls.
Instead of raising fares, increase mechanical efficiency of trains.

National Association of Railroad Passengers
REGION VI
INDIANA OHIO MICHIGAN

4460 Aristocrat Circle
Indianapolis, IN. 46236

Hon. Dan Quayle
Senator Indiana
46 East Ohio St.
Room 447
Indianapolis, IN
46204

FEB 14 1985

February 13, 1985

Dear Senator Quayle:

I would like the following to be made a part of the record for the Senate Budget Committee Hearings being held in Indiana this week.

As Indiana's Regional Representative for the National Association of Rail Passengers, I would like to state our concern for the lack of Amtrak funding for the fiscal 1986 budget. The consequences of a zero Amtrak budget in Indiana would be direct and immediate. For example:

1. 1,375 Hoosier Jobs would cease to exist with a loss of 32.3 million in wages to the local economy.
2. Annual expenses of 6.3 Million dollars for goods and services would no longer be spent in Indiana(3.8 million in Indianapolis alone).
3. 214,142 Indiana train riders would be forced to find alternate modes of transportation which, for some communities, do not exist.
4. The money spent to transform Union Station into an intermodal center and shopping plaza would go down the drain due to the loss of a major tenant.
5. The loss of passenger service over some rail lines would be a prelude to abandonment and consequent loss of freight service to smaller communities.

I urge the committee to consider the restoration of full funding for Amtrak at levels compatible for 1985. Amtrak is a success story that deserves our continued support. It has met and exceeded congressional profitibility quotas in the 1980's, and provides an essential public service. The fantasy that Amtrak is an unecessary extravagance is proven false by the fact that it is an ongoing enterprize, not a financial assistance program. There is no such thing as a Zero Amtrak budget due to labor agreements, shutdown costs and contractual penalties. Congress should not be considering how to terminate rail service, but should be agressively pursuing its expansion to all those who help bear its costs. It is imprudent for the executive branch to consider a matter as complex as our nation's budget to be as black or white as an up or down vote. The dialogue of your hearings should mandate a careful consideration of all budgetary considerations and amendments to the administration's bill as warranted. We hope that Amtrak funding will be one of those amendments to be passed resoundingly by both houses.

Thank you for the opportunity to express our views before the committee.

Respectfully,

Nicholas W. Noe
Nicholas W. Noe
Director, Region VI

To: Senator Dan Quayle
Senate Budget Committee

From: Purdue University Faculty, Staff and Students

We, the undersigned, are strongly opposed to the OMB directive to reduce the number of grants funded by NIH in 1985 to 5,000 and to commit the remaining 1985 funds to 600 of these grants for guaranteed funding in 1986 and 1987.

We cite the following specific objections:

1. These cuts will have a devastating effect on the quality and quantity of basic biomedical research in the U.S.

2. Purdue research labs will lose a great deal of support, resulting in a loss of jobs, a decrease in research activity and a reduction in the educational quality at this university.

3. Young investigators, representing the future of basic research in America, will be affected most.

4. Congressional intent and authority are contradicted, setting a dangerous precedent for all federal programs.

We feel the interests of Indiana and of the United States are not served by the OMB's order, and we urge your consideration and action on this issue.

(This letter was signed by 432 members of the Purdue University faculty, staff, and students.)

Rec: 2/28

HFPIC Hoosier Falls
Private Industry Council, Inc.
Box 1567, Jeffersonville, IN 47130 Phone:812-288-6451

Leo R. Toupin
Chairman

Gerald McCullum
Treasurer

In Partnership with
Local Elected Officials
Dale Orem
L.E.O. Spokesman

February 25, 1985

The Honorable Dan Quayle
United States Senator
% Regional Office
1201 E. 10th Street
Jeffersonville, Indiana 47130

Dear Senator Quayle:

I am writing in regard to a statement quoted in the February 14, 1985, edition of the New Albany Tribune. The statement was reportedly made at your recent budget hearings by Mr. Dave Hoover, Executive Director of Rauch Rehabilitation Services, and was to the effect that JTPA Programs in this area have not met the needs of the handicapped.

Since Mr. Hoover's reported statement does not represent a true picture of the JTPA services provided to the handicapped in our area, the HFPIC voted to write to Mr. Hoover to set the record straight. Because of your involvement and interest in the development and continued improvement of JTPA Programs, it was felt that you should receive a copy of the letter sent to Mr. Hoover, and you will find one enclosed.

Please be assured, Senator Quayle, that the Hoosier Falls Private Industry Council is committed to providing JTPA services at equitable levels to all groups eligible for such services, including the handicapped. If you or your staff have any questions concerning this matter, please feel free to contact Gary Behnke, Associate Director of Administration and Planning, at (812) 288-6451.

Sincerely,

Leo R. Toupin
Leo R. Toupin
Chairman

Enclosure
cc: File

HFPIC Hoosier Falls
Private Industry Council, Inc.
Box 1567, Jeffersonville, IN 47130 Phone:812-288-6451

Leo R. Toupin
Chairman

Gerald McCullum
Treasurer

In Partnership with
Local Elected Officials
Dale Orem
L E O Spokesman

February 25, 1985

Mr. Dave Hoover
Executive Director
Rauch Rehabilitation Services
845 Park Place
New Albany. IN 47150

Dear Mr. Hoover:

I am writing you regarding a statement attributed to you in an article in the 02/14/85 edition of the New Albany Tribune. The article reported that, in Senator Dan Quayle's recent budget hearings, you made a comment to the effect that the Job Training Partnership Act programs have failed to meet the needs of the handicapped in this area. This is a false and misleading statement, and the Hoosier Falls Private Industry Council, at its last meeting, voted unamimously that the record be set straight on this issue, if in fact you made the statement as quoted.

There are two issues to be considered in a determination of whether the needs of the handicapped, or any other group eligible for JTPA services, are being met by the JTPA programs. The first issue is the planned level of service to that group as set forth in the area's Job Training Plan and approved by the Governor of Indiana. There are many more individuals and groups of individuals eligible for the JTPA programs than there are funds to support in program activities. Therefore, priorities must be set so that the most in need in all of the eligible groups are served within the constraints of the available funds. The goal is for equitability of service levels to all of the JTPA eligible groups (which include, in addition to the handicapped, low income adults, youth, the elderly. minorities, veterans, single parents, high school droupouts, etc.). In the Hoosier Falls SDA, the 16% planned level of service to the handicapped represents one of the highest in the State of Indiana. This is due to the fact that the Hoosier Falls PIC chose to serve the targeted groups based upon their incidence in the eligible population, rather than upon their lower incidence in the general population as did most of the other Indiana service delivery areas.

The second issue to consider is whether or not planned levels of service to a given group are in fact being met by the JTPA programs. The approved Hoosier Falls Job Training Plan sets forth a goal of a total of 56 terminations of handicapped participants from the JTPA Program during Program Year 1984

(July 1, 1984 through June 30, 1985). Given the area's approved rate of terminations into unsubsidized employment of 51%, the goal of placement of handicapped JTPA participants in to jobs in this region in PY 1984 is 29 job placements. At the mid-point of PY 1984, December 31, 1984, a total of 28 handicapped individuals had already been placed into unsubsidized employment as a result of participation in JTPA-funded activities.

For the above reasons it is difficult to understand how the statement could be made that JTPA programs in our region are not meeting the needs of the handicapped. The JTPA programs were designed to meet employment and training needs of a wide range of groups on an equitable basis within federal funding constraints. The Hoosier Falls PIC feels that the programs operated in our region are making very good progress in this endeavor. Statements such as the one quoted in the Tribune, which provide (no doubt inadvertent) misleading impressions to the public can only serve to damage the credibility of JTPA programs in our area, and their ability to function as well as they do.

I hope that this letter has served to help clarify the confusion that seems to exist regarding the JTPA role and success in serving the handicapped in our area. If not, I would like to invite you to attend one of our forthcoming Council meetings at which we could discuss the issue further. If you would like to attend such a meeting, please contact Gary Behnke, Associate Director of Administration and Planning, at (812) 288-6451.

Sincerely,

Leo R. Toupin

Leo R. Toupin
HFPIC Chairman

LRT:dp

cc: Senator Dan Quayle ✓
File

RAUCH REHABILITATION
AND DEVELOPMENTAL SERVICES, INC.
NEW ALBANY, INDIANA

Rauch Center
Infant Follow Along, Pre-School, and
Adult Day Activities
2520 Shrader Avenue
Zip 4715
Phone (812) 945-235

Rauch Industries
Administrative Offices, Rehabilitation
Services and Sheltered Workshop
845 Park Pl.
Zip 47150-2244
Phone (812) 945-40

March 1, 1985

Mr. Leo R. Toupin
Hoosier Falls
Box 1567
Jeffersonville, IN 47130

Dear Mr. Toupin:

Received and appreciate your letter of 2/25/85. I must say that I was quoted correctly in the New Albany Tribune. Senator Quayle requested that I follow up and provide more information. I decided that before I provided him with any information that it should be consensus of all the directors of Rehabilitation facilities and not just mine. Also I feel that any specific concerns should be discussed with you before being forwarded to anyone.

There have been many informal discussions dealing with this subject matter in the past but no position statement was ever written.

A directors meeting is scheduled for mid March. Hopefully at that meeting our concern can be formalized. If this is done I would like to meet with you to discuss the validity of such. Could be that I just need an education of how the system is intended to work.

Find enclosed a page from the monthly newsletter published by Indiana Association of Rehabilitation Facilities.

Sincerely,

Dave Hoover

Dave Hoover
Executive Director

Enclosure

DH/llc

CITY OF RICHMOND

50 NORTH FIFTH STREET
RICHMOND, INDIANA 47374
TELEPHONE (317) 966-5561

FRANK H WALTERMANN
MAYOR

February 5, 1985

Senator Dan Quayle
524 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Quayle:

I am writing to you to express my concern over the proposed budget cuts relating to domestic programs and to urge you and your colleagues to deal with the reduction of federal deficits in a fair and equitable manner. As you are aware, Indiana cities and counties are not wasteful in their use of tax dollars and the financial assistance that is received through the federal programs is most beneficial to local governments. The results derived from such federal programs are measurable in real terms.

In the January 28, 1985, edition of "Nation's Cities Weekly" a quote by the National League of Cities President Voinovich reads as follows:

> "Some White House officials and members of the House and Senate are of the impression that cities do not care if general revenue sharing is eliminated, if community development block grants are cut. if UDAG and public transportation operating assistance is eliminated - because City officials have not sent thousands and thousands of letters like some special interest groups have. These Federal officials assume that an absence of overwhelming protest to any proposed cut should be interpreted as a sign of acquiescence."

It is my hope that you will consider the benefits of the above referenced programs as well as the impact if those programs are lost and are substantially reduced in funding. In Indiana these programs provide the majority of dollars which are used for economic development purposes resulting in the creation of jobs and the expansion of the tax base. Transportation funds are used to provide mass transportation, via buses, for primarily the elderly and the very low income persons who have no other means of transportation available to them. General Revenue Sharing is utilized to provide funding for necessary equipment purchases such as snow plows, street maintenance equipment, trash trucks, fire fighting equipment, and police cars. In Indiana, local tax rates have been frozen since 1973 and because of that, local governments have been operating with their "belts tight", and in many instances the only way that local governments have been able to provide a minimum level of service has been with the federal programs that are available to them.

For the past eight years the national unemployment rate has averaged 7.31 percent while Indiana's rate has averaged 8.2 percent and Wayne County's unemployment rate has averaged 10.14 percent. The average unemployment rate for 1983 in Wayne County was 12.4 percent which was four percentage points higher than that of the national average. Because of the economic lag in Wayne County and Indiana, the assistance that is available from the federal government is very crucial. I might suggest that you and your colleagues consider targeting of federal funds to benefit communities such as Richmond and Wayne County who are suffering the effects of a long term economic down turn, while at the same time eliminating federal support to states and communities who have unemployment rates less than the national average and those communities who have a higher than average per capita income measured in a real sense. It is my opinion that if the federal funds made available to Indiana, its cities and counties, were to be eliminated, we would have great difficulty in coming out of the long term economic recession that we have been experiencing.

Although I have not been able to identify the total deficit reduction that is being suggested, I do feel that the small amount of the budget that goes toward domestic programs should be left mainly in tact while the bulk of deficit reductions should come from the defense budget where similar reductions would hardly be noticeable.

Thank you for you time and consideration.

Sincerely,

Frank H Waltermann

Frank H. Waltermann
Mayor
City of Richmond, Indiana

FHW/sb

614 Beharrell Avenue
New Albany, Indiana 47150
February 15, 1985

The Honorable Dan Quayle
United States Senate
524 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Quayle:

When you conducted the hearings in New Albany on Wednesday, February 13, concerning the 1986 budget, my brother Dave and I, uncles of your assistant, Greg Zoeller, wanted to submit several comments or proposals that were not included in any comments by the speakers. We thought you would want to receive them for consideration when you 'get up to bat' in the Senate on the budget.

My comments are as follows:

a. Defense budget - As a retired Navy captain, I would be willing to take a pay cut,of say 5%, which is what I believe President Reagan also proposed. I'd like to put some conditions on the proposal, namely, that the savings would go to pay off the debt and that other retirees, particularly civil service retirees as well as military retirees, also be cut. I do not believe that the military retirement system should be changed because there needs to be an inducement by the retirement benefits that compensate for the risks in combat and the family separations. The amount of those benefits is always an arguable point but the system should not be, despite Mr. Stockman's recent comments.

b. Tax Simplification - I believe that the proposal to eliminate the charitable deduction for people who do not itemize their contributions would diminish the incentive for charitable giving to churches and other agencies and therefore recommend that the proposal not be approved. I believe that the proposal would affect low income people who are most in need of charity.

My brother David recommends, if an increase in taxes comes about, that a tax be imposed on the purchase or sale of stocks, similar to a broker's fee. This proposal must have been made before now but we have not seen anything in the papers about it. It appears to be an untapped source of revenue. It would also appear to affect only people who can afford to pay an additional tax.

Thanks for listening.

Sincerely, Robert Zoeller

Robert Zoeller
Captain, U.S. Navy (Ret)

cc: David Zoeller

PAUL O. ALFORD
Mayor
MICHAEL TURNER
Clerk-Treasurer
PATRICIA DOENGES
City Attorney
RALPH KLUEBER
City Judge

City of Aurora

Third and Main Streets
AURORA, INDIANA 47001

Councilmen:
JERRY DOENGES
RONALD E. NOCKS
CHARLES THAYER
RANDY EAGLIN
LEON KELLY

February 6, 1985

Senator Dan Quayle
Members of Senate Budget Committee
Other Interested Partys
Room 447, 46 East Ohio Street
Indianapolis, Indiana 46204

Senator Quayle:

Aurora is located on the Ohio River in Dearborn County adjoining Lawrenceburg, Indiana, the county seat. Indianapolis is 90 miles Northwest and Cincinnati, Ohio is 30 miles Northeast. Louisville, Kentucky is 110 miles Southeast. Aurora is 3 miles from I-275, which connects I-71, I-75, and I-74. Aurora's assessed valuation is $9,557,230.00 and our city tax rate is $3.55 per $100.00.

The purpose of my testimony is to try and persuade the members of the Senate to [redacted] has benefited the City of Aurora in the past by helping pay for things that would have been paid for by other taxes or done without.

All General Revenue Sharing funds this year is budgeted for city Sanitation Service, which only pays for part of the cost total for just garbage pickup $51,030.00. So, if General Revenue Sharing is eliminated it is impossible to obtain that money else where, since the City's in Indiana can not increase their taxes and citizens can't vote a referandum for it. [redacted]

AURORA — CITY OF THE 100 YEAR OLD CHURCH SPIRES

Page # 2 Cont.
February 6, 1985

The last ten years the City of Aurora has received the following in General Revenue Sharing:

1975	139,261.50
1976	116,665.78
1977	68,927.00
1978	60,412.00
1979	62,191.00
1980	52,509.00
1981	45,758.00
1982	48,364.00
1983	35,284.00
1984	30,325.00
1985	30,325.00

At this time we have only three people working in the street department because of lack of funds, not due to lack of work available. Also, at this time we have six police officers and police cruisers that are over six years old which need to be replaced. **Our budget for police and fire protection is 76% of our total budget.**

As the city's ability to provide services to its citizens decrease, the desire of people to live in the city decreases.

I feel that if the cuts are made, the government needs to eliminate the mandandates such as Clean Water Act which mandates city's to have sewers, but having the EPA funds cut back, CBDG, EDA puts the city in a position of having to borrow money. Then taxes will have to be raised in the city and besides taxes the tax payer will have to pay the interest on the loans. In Indiana the city's not allowed to raise taxes or go to tax payers and ask for a raise. So it is not a matter of pulling in your belts, its a matter of doing without.

This is a sumary as to what I will testify to on February 13, 1985. However, I will provide the members of the committee with twenty-five copies of a more detailed testimony.

Sincerely,

Paul O. Alford, Mayor
P.O. Box 158
Aurora, Indiana 47001

INDARP
INDIANA ASSOCIATION OF RAILROAD PASSENGERS
P.O. BOX 744 - LAFAYETTE, INDIANA 47902-0744

CHARLES E. SHORT
President

NICHOLAS NOE
Vice-President

PAUL D. ARDEN
Secretary-Treasurer

Written Testimony submitted to Senator Quayles Budget Committee Hearing

AMTRAK FEDERAL FUNDING

Amtrak passenger train service is in the best interest of our country and Indiana. Inter-city passenger train service is the safest, most energy efficient mode of transportation available today. After fourteen years of hard work and planning, we have the best inter-city passenger train service this country has seen in over 20 years. Passenger train service is an important part of this nation's transportation network, and Amtrak's popularity continues to grow in all parts of the country. In FY-84, Amtrak trains carried some 20 million passengers, 400,000 from Indiana. That is an increase of about 5% over the year before. This is why the proposed elimination of Amtrak passenger train service is not in the best interest of our nation.

The people of Northwest Indiana would feel the pinch, along with the rest of the country, if Amtrak service were eliminated. Amtrak operates two commuter trains between Valpariso and Chicago that are used by over 275,000 commuters per year. These trains serve Valpariso, Wheeler, Hobart, Gary, East Chicago and Hammond. If this service were eliminated, these 275,000 people would have to find an alternative means of commuting to their jobs in Chicago. The majority of these people would either have to quit their jobs or go back to driving an automobile. This will lead to more unemployment in Northwest Indiana, more conjestion on our highways, and more pollution in our air. Northwest Indiana would join the rest of the country in paying the price for the loss of its Amtrak service.

Over the past four years, Amtrak has worked hard to reduce its need for federal funding. During that time, Amtrak's dependence on government subsidies declined 24%. This was done by cutting costs, not cutting service. Amtrak's sustained progress in improving its services and reducing its dependence on federal funds shows that additional federal support will pay great dividends in the long run. Amtrak expects to cover 60% of its expences with revenues in 1986, a great improvement over the 48% covered just four years ago.

Some other facts to consider are:

* The total elimination of Amtrak would end service to some 500 American cities, including 20 in Indiana, and it will leave many small communities without ANY common carrier passenger transportation.
* The end of Amtrak service would idle some 25,000 workers, including some 1,375 employees here in Indiana.
* Because of contractional agreements, the government would pay out over $2.1 billion during the next six years in labor protection payments, even though no Amtrak service would be operating.

"Working to Improve, Promote and Expand Passenger Train Service in Indiana"

Another thing to consider is that Amtrak differs in one very important way from other programs for which zero budgets have been proposed. Many of the other programs can be restored at any time the condition of the budget permits it, without critical structural damage. A zero Amtrak budget, however, will destroy a going concern that it has taken fourteen years to build and that, once dismantled, probably can never be replaced. There is a big difference between avoiding an expence and liquidating a going concern with over $3 billion in capital investments and over 20,000 skilled employees. Amtrak is an ongoing enterprise, not a financial assistance program that can be restored with the stroke of a pen. To adopt a zero budget for Amtrak would be an act of enormous and irreversible fiscal waste.

Amtrak service must continue to operate! The public wants and needs inter-city passenger train service. Amtrak is one of the few government funded programs that is continously working to cut costs where possible, to decrease the need for government money. So far they have done a fantastic job. They should be allowed to continue that work.

SUBMITTED ON BEHALF OF THE INDIANA ASSOCIATION OF RAILROAD PASSENGERS, BY
PAUL D. ARDEN - SECRETARY/TREASURER, 380 SO. HOWARD ST., GARY, IN 46403.

TESTIMONY SUBMITTED

by

Paul W. Barada, Chairman
Southeastern Indiana Private Industry Council

The purpose of this testimony is to present my views on the question of determining the direction of federal budgetary policy. My comments, however, are limited to my personal involvement with the Job Training Partnership Act in Southeastern Indiana.

Allow me to begin with a direct response to the basic question of how best to control the federal deficit. It is my judgment that the best initial step to be taken in the short-term is a freeze on all spending at the federal level. If adjustments need to be made in any federal programs, I would urge that funds be taken from those programs which are not producing positive results and reallocating those funds to the programs which are working.

In the area of human services provided by the federal government, I would suggest that a new philosophic perspective is needed at the federal level. I believe that programs which encourage dependence on the government should be curtailed while programs, such as JTPA which promote self-reliance, should be encouraged. It is my judgment that far too many alleged safety-net programs have been created that have the effect of taking away from many people the one quality which enabled us to accomplish what we have as a nation--namely, self-reliance. While there is no question there are people in this country who are truly in need, too many programs discourage individuals from acquiring the skills needed to find and keep full-time jobs. Too many programs encourage people in need to assume the government will take care of them. Even worse is when people believe the government, somehow or other, owes them a living. One cannot help but wonder if our country would have achieved greatness if the Founding Fathers had created an extensive social welfare system such as we have today.

The Job Training Partnership Act, on the other hand, is a federal program that provides the opportunity for people to help themselves. This program is not designed to encourage dependence, but rather independence. It is designed to provide people with the training they need to not only find full-time, unsubsidized, private-sector employment, but also to help them keep a job once they are employed. JTPA is designed to get people off the public dole and into productive taxpaying jobs.

There is another advantage JTPA offers. Unlike the old Comprehensive Employment and Training Act, JTPA operates from the employer's point of view, not the perspective of the social reformer. The reality of private-sector employment is simply that employers want people who are qualified. This is the reason, in my judgment, for the marvelous involvement we have had from the private sector in the activities of our Private Industry Council; they see JTPA as responsive to their needs. Social goals notwithstanding, private-sector employers do the hiring. The message, therefore, from the private sector is, "Don't send us people who simply need jobs; send us people who can do the job." If they need employment, so much the better.

But the reality of the marketplace is simply that employers are going to hire the most qualified people they can find. Private-Sector employers are looking for potential employees who can help them do the one primary thing for which they are in business--to make money.

JTPA recognizes that reality. In order for job-training services available under the act to be of benefit to an individual, the individual must want to help himself or herself.

In Southeastern Indiana, at least, that is exactly what is happening. We are helping our fellow Hoosiers find and keep full-time jobs.

We are aware, however, there have been accusations of "creaming" from some quarters. As we understand, "creaming" is placing those people easiest to place and ignoring those who allegedly are most in need. I would address that by pointing again to the objective of JTPA. Our charge is to help eligible people find jobs. The reality, as previously stated, is that employers want to hire people who can do the job, not people who just need jobs. At the same time, if a person needing a job can also do the job, so much the better. And that, I submit, is what JTPA is "all about."

Also, I would like to respectfully point out, there are any number of other social welfare programs in operation for individuals who are least likely to be able to find and keep a private-sector job. Those are the so-called "safety net" programs; JTPA, as we understand it, is not.

JTPA is a program that is working. Therefore, to the extent that it is working, I urge you not to "fix it."

In terms of federal budgetary policy, I would also urge you not to cut the current funding for JTPA. By the same token, and speaking as a private-sector employer, I would also suggest to the extent JTPA deserves increased funding, take those funds from programs of marginal utility which do not promote self-reliance. Furthermore, I would urge you to absolutely hold the line, by way of a budget freeze, on any increases in federal spending.

WHERE TO CUT THE FEDERAL BUDGET

Testimony of Reginald W. Bass, citizen
6537 Carrollton, Indianapolis, In. 46220
February 11, 1985

Over time, the Congress has appropriated funds beyond its ability to tax. The Congress has created an incomprehensible national debt with pyramiding annual deficits. It is appropriate that the elected member of Congress seek the advice of those whom he represents. Where shall I cut the spending, he asks. The answer will become obvious as these observations are considered:

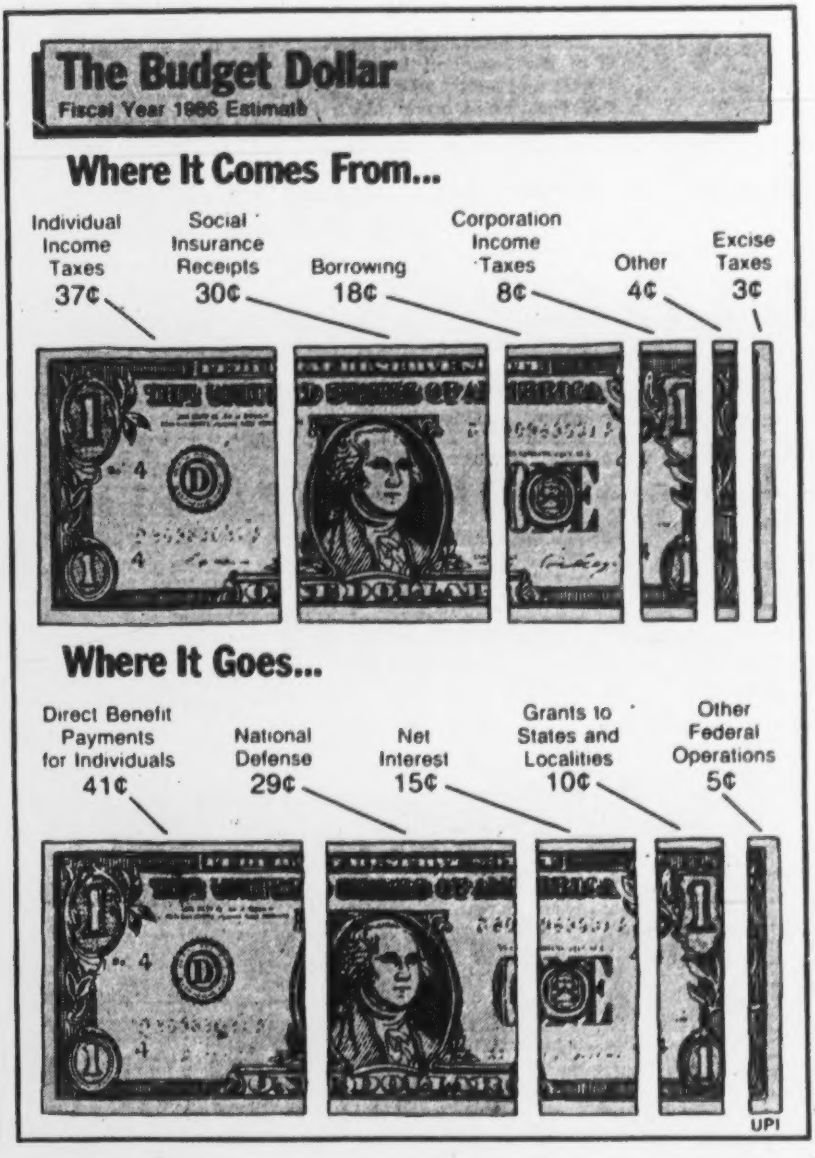
Public opinion, expressed by those in high places, will accept budget cuts if all share in any presumed hurt including defense appropriation. The only yardstick meeting these criteria is the contract between the people and the government - the United States Constitution. In Article I Section 8, the people empower the Congress to spend money for certain clearly defined purposes. "In order to prevent misconstruction and abuse of power", the tenth amendment specifically denies any other spending. Therefore, all functions of government not authorized by the constitution should be transferred to the states or to the people as provided by the tenth amendment.

The constitutionally authorized government functions can also be pruned for illegal expenditures. About half of the defense budget is for several thousand businesses having nothing to do with defense.

Cut the spending with the constitution reduces the budget by at least 50%, eliminates deficit, and produces a surplus to apply on national debt.

Reginald W. Bass
317-255-1346

MONDAY, FEBRUARY 4, 1985 — —THE INDIANAPOLIS STAR—



Testimony prepared for Field Hearings
of Senate Budget Committee - Lafayette, Indiana
February 15, 1985

Senator Quayle, Ladies and Gentlemen:

There is general consensus among taxpayers and political leaders that the federal income tax process has become unnecessarily complicated, capricious, unfair and inefficient. In its most extreme manifestation, this allows those with very high income to pay no tax, while moderate-income families pay significant portions of their incomes.

The U.S. Treasury Department's plan for tax simplification addresses these concerns, but its recommendations would throw out many of the valuable aspects of the current tax system, and some of these changes would have very deep implications for American higher education. I believe the impact of the proposal should be examined very closely before change is enacted.

The principle of a flat-percentage tax -- which works very well in Indiana -- certainly is worth serious consideration because of its inherent simplicity and because it ensures that each taxpayer shares in the cost of government. However, the Treasury Department's plans for limiting or eliminating the deductibility of certain areas of charitable contributions would cause very serious problems for many institutions and actually would be counterproductive to the government's philosophy. The Reagan Administration's intention clearly is to reduce the government's direct role in many areas of American life, including education, with the intention that private elements of the economy will support these areas more effectively.

However, the incentives for private support would largely disappear under the Treasury Department's plan, with potentially disastrous consequences. The proposal to limit federal income tax deductions for charitable (including educational) contributions to amounts that are above 2 percent of the taxpayer's adjusted gross income would largely destroy the incentive for such gifts. The current average for such contributions is 1.97 percent of adjusted gross income.

Another proposal is for the elimination of charitable deductions for taxpayers who do not itemize deductions on their returns. Since two out of three taxpayers don't itemize, this would further reduce incentives for private giving.

Another proposal that would produce a negative impact for colleges and universities is the restriction of the deduction for a gift of property that has grown in value (such as securities). The Treasury Department's plan is to limit the deduction to the original value of the property -- plus an inflation adjustment -- regardless of the value of the gift at the time it was given.

It is difficult to estimate in advance the total impact of the above proposals, but a Duke University study has projected that the various institutions, including education, that benefit from charitable contributions would lose between $6 billion and $12 billion in fiscal 1986. Either of those figures is greater than the Treasury Department's estimate of a federal revenue gain of $4 billion.

The tax proposals also have to be considered in the light of the current federal budget proposals for higher education. These proposals would reduce the federal budget for higher education by a full one-third ($2.3 billion).

They would:

- eliminate subsidized loans for students of families with gross income above $32,500 per year;
- place a $4,000 annual limit on the amount a student may receive from all federal sources;
- eliminate Pell grants, direct loans and subsidized employment (work-study) for students with family incomes above $25,000;
- require all students to provide at least $800 from other sources to qualify for federal assistance;
- increase the interest rate on guaranteed loans by indexing it to the rate on 91-day treasury bills.

Since 60 percent of our 52,000 students are financial aid recipients, these proposals would affect us dramatically.

The budget also proposes to cut the research budget of the National Institute of Health by 6 percent, which would be a 10 percent real cut, assuming a 4 percent inflation rate. A similar cut is planned in the Department of Agriculture's research budget.

Those budget proposals would be drastic by themselves, but enacting them along with a new tax system, which would seriously disrupt giving to colleges and universities from private sources, could seriously undermine our higher education system.

The budget plan cuts deeply into federal support of certain areas, including higher education, while leaving others untouched. The underlying purpose of these reductions is to tackle what has become an enormous federal deficit. Perhaps it is time to look at an across-the-board freeze on federal spending as a means of getting the cost of government under control and halting the momentum of spending increases.

While it is encouraging that the federal government is moving in the direction of tax simplification, we all have to be concerned that worthwhile programs may suffer. In the case of higher education, it would be very shortsighted if we were to pursue the short-term goal of tax reform at the long-term expense of permanently injuring our nation's ability to educate its people.

Even those who believe in reduced federal support of higher education have to recognize that the country's economic vitality depends on the existing programs and that any sudden change might cause irreparable harm. If reform is to come it should be at a measured pace and with full awareness of the consequences.

Thank you for the opportunity to comment on these vital topics.

Steven C. Beering
President
Purdue University

I AM FRANCIS BREWER, THE ALTERNATE NAT. LEGISLATIVE DIRECTOR OF THE UNITED TRANSPORTATION UNION.

THE UNITED TRANSPORTATION UNION IS AN INTERNATIONAL ORGANIZATION REPRESENTING MOST OF THE PERSONS CHARGED WITH THE RESPONSIBILITY OF OPERATING FREIGHT TRAINS AND AMTRAK FOR THE RAILROADS OF THE UNITED STATES.

WE, AS A UNION, HAVE A RESPONSIBILITY FAR GREATER THAN THE PERSONAL SAFETY AND THE FINANCIAL WELL BEING OF TRAINMEN AND ENGINEMEN.

WE ARE IN A REAL SENSE THE TRUSTEES OF A SYSTEM OF TRANSPORTATION WHICH, IF DEVELOPED PROPERLY, WILL MEET THE REQUIREMENTS FOR THE MOVEMENT OF FREIGHT AND PASSENGERS THROUGHOUT THE STATE OF INDIANA AND THE UNITED STATES COMFORTABLY, SAFELY AND MORE ECONOMICALLY THAN OTHER SYSTEMS OF TRANSPORTATION. HOWEVER, RAILROADS ARE NOT IN COMPETITION WITH AIRWAYS, WATERWAYS AND METHODS OF TRANSPORTATION USING THE HIGHWAYS OF OUR COUNTRY.

ALL OF THESE MODES OF TRANSPORTATION MUST BE USED COOPERATIVELY TO PROVIDE A UNIFIED TRANSPORTATION SYSTEM MEETING THE CRISIS OF WAR, THE NEED FOR ECONOMY IN FUEL AND SERVICE WHICH IS BOTH COMFORTABLE AND WITHIN THE REQUIRED LIMITS OF THE PERSONS SERVED.

A GOOD EXAMPLE WOULD BE -- THE CONSOLIDATION OF ALL TRANSPORTATION FACILITIES AT THE RENOVATED UNION STATION.

THIS WOULD PROVIDE INDIANAPOLIS WITH AN EFFECTIVE MEANS OF REJUVENATING THE DOWNTOWN AREA AND PROVIDE SERVICE TO THE CONVENTION CENTER AND THE HOOSIER DOME.

TRAIN SERVICE COULD CONNECT THE INTERNATIONAL AIRPORT WITH THE UNION STATION. (SEE NEWSPAPER RELEASE INDPLS.STAR DATED 9-2-82 ATTACHED)

A SAFE PARKING LOT TO LEAVE YOUR CAR FOR A LONG TERM PARKING IS DESPARATELY NEEDED.
AT AMTRAK STATIONS.
LET'S GIVE THE AMERICAN PEOPLE A CHOICE IN THEIR TRAVEL BY HAVING PLANES, TRAINS AND BUSES AVAILABLE.

PRESIDENT REAGAN'S BUDGET OF $973.7 BILLION BOOSTS MILITARY SPENDING. CUTS DOMESTIC PROGRAM, FARM PROGRAM, AND THE FEDERAL SUBSIDIES TO AMTRAK.
CAN WE BE FIRST IN DEFENSE WITH NO PASSENGER TRAIN SERVICE IN A COUNTRY THIS LARGE?

IS IT FAIR TO ASK THE AMERICAN PEOPLE TO BE FIRST IN SPACE WITH NO PASSENGER TRAIN SERVICE ON EARTH.

AMTRAK SINCE 1971 HAS CONTINUALLY IMPROVED THEIR SERVICE AND UPGRADED THEIR EQUIPMENT TO EARN THE PUBLIC'S RIDERSHIP AND TRANSPORTED 22 MILLION PEOPLE IN 1984. INDIANA RIDERSHIP (SEE EXHIBIT A)
THEY EXPECT TO INCREASE THAT AMOUNT BY 2 TO 3% IN 1985.
AMTRAK EMPLOYS 1,357 WORKERS AT THE BEECH GROVE SHOP, WHO EARNED A TOTAL OF $32.5 MILLION LAST YEAR.

THIS DOES NOT INCLUDE THE PERSONNEL THAT OPERATE THE TRAINS.
AMTRAK ALSO SPENT $6.3 MILLION FOR GOODS AND SERVICES IN INDIANA LAST YEAR.
LISTS OF VENDORS ATTACHED. (SEE EXHIBIT A)

AMTRAK SUBSIDY REQUEST FOR 1986 WILL BE SAME AS 1985 - $684,000,000.
IT HAS BEEN DECLINING FOR THE PAST YEARS.
FEDERAL TAX MONEY MAKES UP 40% OF AMTRAK BUDGET.

THE TAXPAYERS OF AMERICA HAVE PAID THE DEFICIT FOR AMTRAK FOR THE PAST 14 YEARS.
THIS SHOULD MAKE AMTRAK SERVE THE PUBLIC WHEN THE NEED IS THERE.

MAIL PROVIDED REVENUE OF $1.2 MILLION IN 1971, AMTRAK'S FIRST YEAR.
BY 1979 IT WOULD HAVE GROWN TO $11.4 MILLION HAD NOT FOUR TRAINS BEEN CANCELLED IN THE REORGANIZATION.
REVENUE FOR THE YEAR, WITHOUT THE FOUR TRAINS, WAS $9.3 MILLION.
1984 -- MAIL REVENUE WAS $14 MILLION, AND PACKAGE EXPRESS REVENUE WAS $4½ MILLION.

SENATOR , WE FEEL AMTRAK IS IN POSITION TO CARRY MORE U.S. MAIL, WHICH WOULD INCREASE THE REVENUE AND WOULD LOWER THE SUBSIDY.

MR. DAVID STOCKMAN, OMB DIRECTOR, HAS STATED THAT IT COSTS THE TAXPAYERS $35.00 FOR EVERY PASSENGER THAT RIDES AMTRAK.

AMTRAK STATES IT COSTS $33.00 FOR EVERY PASSENGER THAT RIDES A JET PLANE?
THIS DOES NOT INCLUDE $1.15 BILLION THE TAXPAYER PAYS FOR AIR TRAFFIC CONTROLS. (SEE EXHIBIT B)
GOVERNMENT SUPPORT TO AIR TRANSPORTATION IN 1983 WAS $4.1 BILLION.

OUR HIGHWAYS ARE SUBSIDIZED BY A FEDERAL TAX OF .09 AND STATE TAX OF 11.1 ON EACH GALLON OF GAS OR DIESEL FUEL WHICH IS USED BY THE BUS COMPANIES TO TRANSPORT PASSENGERS. (SEE EXHIBIT C)
GOVERNMENT SUPPORT TO HIGHWAYS IN 1983 $46.1 BILLION

THE RECORD SHOWS ALL PUBLIC TRANSPORTATION IN THE WORLD DOES NOT OPERATE OUT OF THE FARE BOX, IT HAS TO HAVE SOME FORM OF SUBSIDY TO KEEP IT OPERATING.

SENATOR , LET'S NOT WORK APART, BUT LET US JOIN TOGETHER.
GIVE THE STATES ACROSS AMERICA TIME TO GET THEIR 403 B FUNDING IN PLACE, TO SHARE THE COST.

AND WITH THE INCREASE IN U.S. MAIL AND PASSENGER RIDERSHIP, THIS WOULD LOWER THE FEDERAL SUBSIDY FROM 40% TO 25 OR 20%.

LET'S NOT DISMANTEL 14 YEARS OF BUILDING AMTRAK.
LET'S REACH OUT AND WORK TOGETHER TO MAKE IT A SOLID SYSTEM.

I APPRECIATE THIS OPPORTUNITY TO APPEAR AT THIS MEETING.

(see newspaper article no. 1 attached dated 12-24-84 from new york times - Japan's favorite "Bullet Train" operated at a $10 Billion Dollar loss per year.)
(See News article no. 2 attached - via Canadian Rail Passenger Service in 1983 operated on a $700 Million Dollar Subsidy.)

STATE OF INDIANA
AMTRAK FACTS

- Amtrak Service and Ridership

Amtrak operates a total of 11 trains through Indiana--including the long-distance Lake Shore Limited (Chicago-Toledo-Albany-Boston-New York), Broadway Limited (Chicago-Pittsburgh-New York), International (Chicago-Toronto), and Cardinal (Chicago-Cincinnati-Washington, DC-New York), and serves the following stations:

City	FY-84 Ridership
Crawfordsville	5,438
Dyer	3,977
Elkhart	14,003
Fort Wayne	23,261
Gary (Broadway)	3,759
Gary (5th & Chase)	7,500
Hammond/Whiting	31,472
Hobart	5,045
Indiana Harbor	8,682
Indianapolis	43,243
Lafayette	15,934
Michigan City	3,762
Muncie	3,522
Marion	2,462
Peru	2,220
Rensselaer	3,951
Richmond	1,583
South Bend	15,553
Valparaiso	15,576
Wheeler	24
Whiting	3,126
Total Indiana Ridership	214,142

- Procurement/Contracts

Amtrak expended over $6.3 million for goods and services in Indiana in fiscal year 1984. The following cities provided a major portion of those purchases:

City	FY-84 Amtrak Expenditures
1. Elkhart	1,216,844
2. Indianapolis	3,822,028

- Employment

Amtrak employs 1,375 of Indiana's residents whose annualized earnings total about $32.3 million.

1. Adams & West Lake	432.000	Vender
Jackson R. E. Co	752.000	Venders
Carpet Time	2.000	
Gelco Truck Lsg	1,500	

2. 27 pages of venders - 12 venders on page

Central Rubber & Supl'y Co	150.000
Moran Elect Ser	834,000
Mutual Pipe & Sp'ly	120,000
Service Supply Co	155,000
Trane Co.	71,000

Federal Support to Air Transportation

Federal appropriations to the Federal Aviation Administration since Amtrak began operation in 1971 have totaled about $44.7 billion through the end of FY85. An OMB memo cited in Aviation Daily of December 17 anticipated further outlays of $4.8 billion in FY86 noting that they are "difficult" to freeze because the programs have a "dedicated funding source."

The dedicated funding source is the Airport and Airways Trust Fund which is financed by an eight percent tax airline passenger tickets and certain other taxes. The Tax Equity and Fiscal Responsibility Act of 1982 (26 USC 9502) provides for the revenues received from these taxes paid by airport and airway users to be transferred from the general fund of the Treasury to the Airport and Airway Trust Fund. The Secretary of the Treasury estimates the amount to be transferred. In turn, appropriations are authorized from this fund to meet obligations for airport planning and development; noise compatibility planning and programs; facilities and equipment; research, engineering, and development; and a portion of operations.

The following table summarizes FAA obligations for the Air Traffic Control System and other programs. These other programs include primarily the airport grant-in-aid program, facilities and equipment, administration, and research, engineering and development.

	$(Millions)		
	1983 Actual	1984 Estimate	1985 Estimate
Air Traffic Control:			
Operations	1,068	1,094	1,129
Maintenance	721	740	795
Subtotal Air Traffic Control	1,789	1,834	1,924
Other Program Funding	2,242	2,467	3,072
Total Program Levels	4,031	4,301	4,996
Offsetting Collections From:			
Airport and Airway Trust Fund (Receipts)	-2,698	-3,105	-3,534
Non-Federal Sources	-7	-9	-9
Other Federal Receipts	-23	-30	-31
Excess of Obligations Over Receipts	1,303	1,157	1,402

Source: "Budget of the U.S. Government - FY85" - OMB-Executive Office of the President. Table does not include outlays from state and local government entities.

Corporate Planning
January 10, 1985

B

FAA Appropriations
Fiscal Years 1971-1983
($ Millions)

Fiscal Year	Operations	Operations Airport and Airways Trust Fund	Facilities and Equipment Airport and Airways Trust Fund	Grants in Aid for Airports Airport and Airways Trust Fund	Research, Engineering and Development Airport and Airways Trust Fund	Metropolitan Washington Airports	Facilities, Engineering and Development	Other	Total	FAA Hand-book Year and Page
1971	992.1	34.0	238.0*	180.0	69.0**	15.1		258.6***	1,786.8	CY74 3
1972	-	989.1	301.8	295.0	63.4	16.4		218.5#	1,884.2	CY75 3
1973	1,173.2	-	302.7	295.0	66.0	14.9		2.0##	1,853.8	CY75 3
1974	1,293.5	-	250.0	300.0	62.1	17.7	11.5		1,934.8	CY75 3
1975	1,419.5	-	227.3	340.0	57.9	21.8	11.8		2,078.3	CY75 4
1976	1,568.7	-	245.5	350.0	67.5	20.4	12.3		2,264.4	CY78 4
1977	1,487.8	250.0	200.0	545.0	74.4	26.5	15.5		2,599.2	CY78 4
1978	1,622.7	275.0	200.0	555.0	80.8	27.8	14.3		2,775.6	CY82 3
1979	1,737.7	300.0	345.4	644.1	75.1	29.5	18.5		3,150.3	CY82 3
1980	1,849.5	325.0	292.8	677.0	75.0	34.1	20.5		3,273.9	CY82 3
1981	1,815.4	525.0	350.0	570.5	85.0	45.4	21.2		3,412.5	CY82 3
1982	1,482.0	809.9	260.8	476.2	71.8	47.1	8.8		3,156.6	CY82 3
1983	1,308.2	1,283.0	625.0	800.0	103.0	43.0	18.2		4,180.4	CY2 3
Total	17,750.3	4,791.0	3,839.3	6,027.8	951.0	359.7	152.6	479.1	36,350.8	

Note: Further appropriations of $4,663.0 million and $5,685.0 million were granted in FY84 and FY85, respectively, per Budget of the U.S. Government - FY85.

Source: FAA Statistical Handbook of Aviation, U.S. Department of Transportation, FAA - Calendar Year 1982, 1978, 1975, 1974.

*Includes $190.0M not from trust fund.
**Includes $45.0 million not from trust fund.
***Includes $1.0 million for safety, $254.8 million for supersonic transport, and $2.8 million for International Aerospace Exposition.
#Includes $160.0 million for safety and $58.5 million for supersonic transport termination.
##International Aerospace Exposition.

Government Support to Highways

Since Amtrak began in 1971, all levels of government in the United States have spent $424.6 billion on highway construction, operation and maintenance. These expenditures, partly covered by taxes on users, serve to provide facilities that no beneficiary could provide for itself. Expenditures for 1983 were $46.1 billion, including $8.9 billion from the Federal Highway Trust Fund. The Trust Fund is financed by taxes on motor fuels, lubricating oil, vehicles, parts and accessories, tires, tubes and tread rubber.

In response to charges by bus industry spokesmen that subsidies to competing modes contributed to a weakened competitive position for the bus industry, Congress enacted Sections 231 to 233 of the Energy Act of 1978 (P.L. 95-618).

The Energy Act provided essentially three areas of exemptions to benefit the bus industry:

1. elimination of the excise tax on fuel, oil, and tires,
2. elimination of the excise tax on newly purchased vehicles, and
3. elimination of the excise tax on bus parts and accessories.

In 1977, the year preceeding implementation of P.L. 95-618, the bus industry paid about $11.0 million in these taxes compared to about $1.0 million in 1979, the first full year of its effect. Bus companies are still liable for the Heavy Vehicle Use Tax.

In addition to the bus industry, these government-provided facilities are beneficial to users of private automobiles which represent the principal area of competition for Amtrak, and trucking companies which compete with Amtrak and air carriers for mail and express shipments.

Corporate Planning
January 2, 1985

Grand Total Disbursements for Highways by Expending Agencies
All Units of Government
$(Millions)

Year	FHWA Highway Trust Funds	 Other Funds	Other Federal Agencies	Total Federal	States and D.C.	Counties and Townships	Municipalities	Total	Source: Highway Statistic Report Page
1971	100	107	286	493	15,246	3,060	3,705	22,504	98
1972	176	57	298	531	15,499	3,250	3,900	23,180	73
1973	141	26	349	516	15,788	3,330	4,259	23,893	96
1974	226	25	284	535	16,719	3,790	4,896	25,940	88
1975	256	38	339	633	18,190	4,021	5,309	28,153	V-6
1976	311	51	371	733	18,222	4,808	6,015	29,778	49
1977	259	44	448	751	18,019	4,875	6,140	29,785	118
1978	279	50	478	807	20,170	5,063	6,470	32,510	65
1979	322	67	584	973	23,059	5,783	7,720	37,535	39
1980	378	44	525	947	25,949	5,878	8,290	41,064	39
1981	340	41	546	927	25,413	6,465	8,355	41,160	39
1982	272	157	791	1,220	25,062	7,080	9,650	43,012	40
1983	283	116	484	883	26,916	7,683	10,648	46,130	39
Total	3,343	823	5,783	9,949	264,252	65,086	85,357	424,644	

Source: Highway Statistics Reports 1971-1983
U.S. Department of Transportation
Federal Highway Administration

Expenditure of Federal Funds Administered By the FHWA ($ Millions)

Calendar Year	Federal Aid Highway From Highway Trust Funds	Other Funds	Total	Highway Statistics Page
75	5,791	253	6,044	Vi-1
76	6,222	296	6,517	52
77	5,821	300	6,121	121
78	6,075	456	6,532	68
79	7,483	678	8,162	52
80	9,178	692	9,870	52
81	8,412	684	9,096	52
82	7,969	713	8,682	51
83	8,916	636	9,552	51
84				

Source: Highway Statistics Reports 1975-1983
U.S. Department of Transportation
Federal Highway Administration

THE NEW YORK TIMES December 24, 1984

Japan's Shinkansen, or bullet trains, are everything they're cracked up to be. Every 20 minutes or so one of the sleek white beauties leaves Tokyo station for the dash west. Superexpresses for Nagoya, Kyoto and Osaka cruise at 125 miles an hour. The trains that serve intermediate stops stil manage to average 80. The conductors smile. The cars are spotless. In the buffet car, the white stuff provided with coffee is real heavy cream.

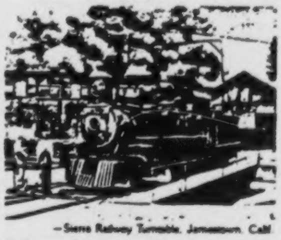
But this much-acclaimed alternative to the airplane doesn't come cheap. Even at the currently inflated dollar exchange, a sardine-class ticket for the 300-mile trip from Tokyo to Osaka costs $45. A roomier, reserved seat costs an additional $20. And even at fares like these, Japan's national railway loses $10 billion a year.

If the most densely populated industrialized nation in the world, a country with second-rate monopoly airline service and third-rate highways, can't make the bullet profitable, where is the future of passenger rail?

November 1-15, 1985

Ride the link & pin VFCO, Inclines of Santos, Paranaugs line. Rail museums and other sightseeing tours. 3 days in Rio, Iguassu Falls visit. Price includes airfare on Varig from Miami, most meals, tips, taxes, top hotels, escort-guides. Tour designed to appeal to non-railfan spouse, with easy pace, balance of free time, rail and land tours. Payments secured by escrow plan. Phone (305) 564-2722. Mr. Follin will return the call. Tour cost $1970, Single Supplement $360.

TRAVEL MASTERS
2454 Wilton Dr. Ft. Lauderdale Fl. 33305



—Sierra Railway Turntable, Jamestown, Calif.

Full-color lithograph of the famous Sierra Number Three, used in hundreds of western motion pictures. Lithographed from the original award winning oil painting by Sierra railway artist Patrick Michael Karnahan.

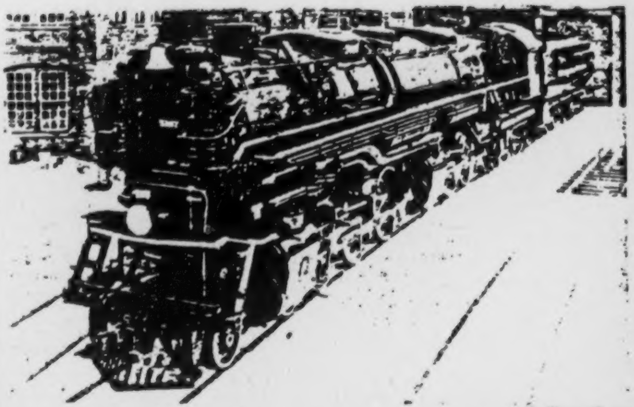
Limited edition of 1000 signed and numbered by the artist. 18"×25" image. Each print $65 post paid, send check or money order to:

Patrick Karnahan
20180 Soulsbyville Road
Soulsbyville, California 95372

(Dealer inquiries invited)

L. Fisher's "The Centennial" 17x 22" limited edition litho, 80 lb stock. Color brochure available. $135. +6.50 carton shpg. MN residents add 6% sales tax, 90 day L-A-Way or Visa/Master Card, M.O.

PERRY'S HOBBIES
114 Vernon Ave, Morgan, MN 56266



Alco Historic Photos

MAILED FIST of raw power, true; but that concession discredits not NP Challenger.

tractive from unattractive? And in the single-system lands (New Zealand, say, as opposed to Australia) of common design stamp, what were the benchmarks of beauty?

Oh, Mr. Emerson? Yes, Mr. King!

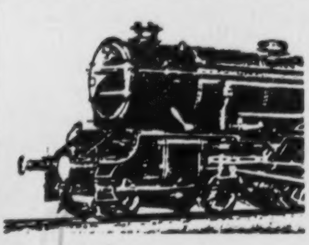
VIA vs. Amtrak

In the course of investigating VIA Rail Canada's lamentable on-time performance (60 to 70 per cent overall in 1983), a study for the Canadian Transport Commission resolves an obvious riddle: 13,271-mile VIA needs as much subsidy (700 million U.S. dollars) as 26,144-mile Amtrak, although the latter carries 3 times as many passengers, produces 2½ times the train-miles, rosters 2 times as much equipment, and grosses 3 times as much money. Unlike its Canadian counterpart, Amtrak operates with largely new equipment on either its own track or over railroads with incentive/penalty contracts to run on time.

Conversely, VIA's 30-year-old low-horsepower (1750-1800) diesels and steam-heated cars are wearing out, and its sole second-generation trains—LRC's—are riddled with bugs; and subcontractors CN and CP Rail are under no financial obligation to perform up to par.

Equipment excerpts: VIA's old GM and MLW cab units average only 70 per cent availability, and the report is critical of spending up to $900,000 Canadian dollars to rebuild them ("What VIA gets . . . is a brand-new 30-year-old locomotive"). But the FP9's and FP4's shine by comparison with the new 3750 h.p. Bombardier LRC units, which during the September 1983-February 1984 period had the worst miles-per-defect record of any locomotive on CN. . . . The conventional passenger-car fleet is defined as "still marginally capable [but] at the verge of collapse"—but the old cars, like the old diesels, outperform LRC cars, which suffered 50 per cent availability in the 1983-1984 winter. Item: The report's railfan input is apparent in a 4-page appendix of car retirements by number, name, type, and date.

An envious reference to Amtrak details its fixed-price contracts with freight railroads based on their short-term avoidable costs of running passenger trains, often coupled to an incentive/penalty clause tied to on-time performance. In Canada "VIA must pay all costs charged to it by CN and CP."



OUR ground rules for locomotive esthet

GREEN FROG

"Don't overlook this marvelous tape..."—Bob Brown, I Gauge and Short Line Gazette.

"Most historically accurate tape on the Cumbres and ...Dan Ranger, General Manager, C&TS RR.

"...a well produced video program with original music to accompany the narration..." "Overall, the photography is very nice..."—Allen Keller, Model Railroader magazine.

THESE ARE THE TYPES OF GOOD REVIEWS WE HAVE RECEIVED ON OUR PRODUCTION "SLIM RAILS THROUGH THE SAN JUANS". THE PROGRAM COVERS THE CUMBRES AND TOLTEC LIKE NO ONE HAS EVER DONE BEFORE.

DON'T FORGET, A $10.00 TAX DEDUCTION ALSO APPLIES!

So why not order yours today from:

GREEN FROG PRODUCTIONS
950 BREAM CT.
MARIETTA,GA 30067

Or call (404)971-6276

VISA

MasterCard

Stereo Sound
VHS or BETA Hi-Fi
Only $59.95 plus $2.00 shipping

Tom Wicker THE INDIANAPOLIS STAR, TUESDAY, FEBRUARY 19, 1985 PAGE 7

Railroading Amtrak

New York — If every federal program were operating today at its 1977-78 funding level, there would be little if any deficit crisis. And that's just what Amtrak, the national railroad passenger service, is doing: Its federal subsidy was $600 million in 1977, $716 million in 1978 — but just $684 million in fiscal 1985.

The trend, moreover, is down. Since a congressionally mandated reorganization in 1979, Amtrak's annual subsidy has declined by 26 percent in dollars adjusted for inflation, and by nearly $200 million in current value dollars.

Those are good reasons — among many others — why its proposal to kill Amtrak is a classic example of the Reagan administration's meat-ax approach to deficit reduction. Neither the effectiveness of a program, nor the value of the service it provides the public, or the long-term consequences of killing it, seem to make any difference if a few dollars can be lopped off the federal budget.

AMTRAK'S SHRINKING subsidy — which costs each tax-paying American household only 91 cents a month — has been achieved, for example, despite improved and in some cases expanded service. The Autotrain is now being run daily between Washington and Florida. And, with Metroliner ridership increasing 18.5 percent in fiscal 1984, all Amtrak trains now carry 60 percent of air and rail passengers in the heavily-traveled corridor from New York to Washington, including intermediate stops. Just try to imagine traffic and passenger-service conditions at La Guardia and Washington National airports if Amtrak's trains disappear.

The "political trains" that Congress used to insist be operated, despite low passenger demand and high losses, have either been eliminated or rescheduled and upgraded to meet congressionally established loss-per-passenger-mile criteria. Measured by those standards, an Amtrak official reports, "there's no train in our system that can be called a dog."

Amtrak does not, of course, pay its own way at the ticket window; neither do most transit systems. But Amtrak's passenger revenues now fund 60 percent of its total costs, a substantial increase from only 48 percent in 1980. The system provides a needed choice of inter-city transportation modes, along with air and bus lines and the private auto; without Amtrak, the United States would be the only developed nation in the world lacking a national rail passenger service.

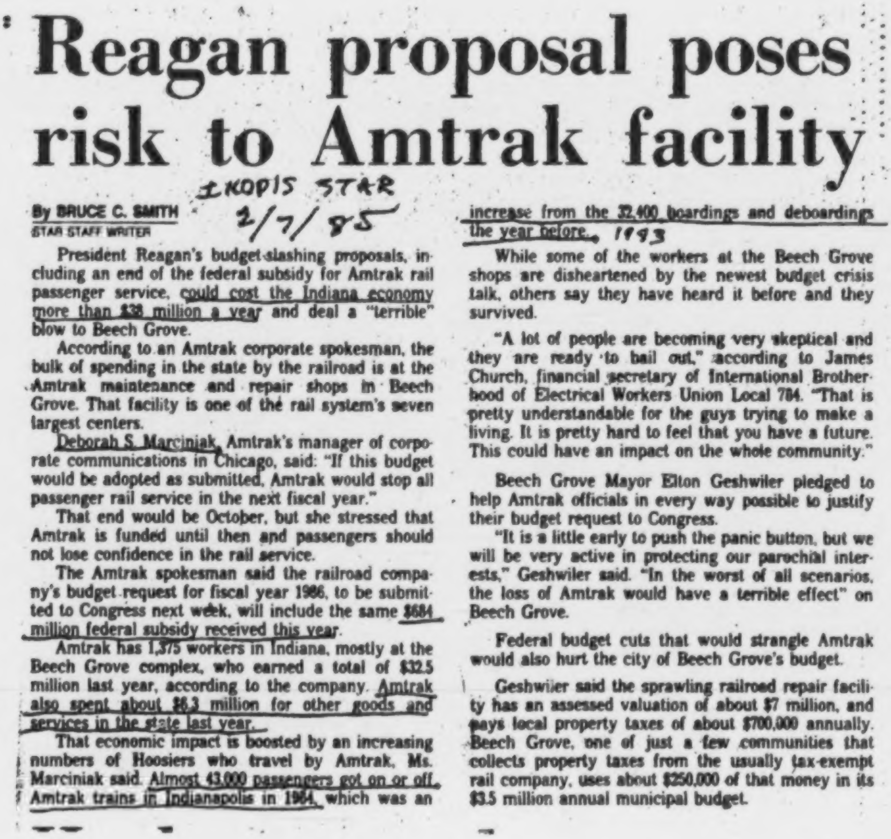
FROM ITS revenues and federal subsidy, moreover, Amtrak shells out $116 million annually to maintain the rail right-of-way, which it owns outright, from Boston to Washington. Conrail, New Jersey Transit, Metro North, the Southeast Pennsylvania Transit Authority, the Maryland Rail Commuter service, the Massachusetts Bay Transit Authority, are some of that right-of-way's users. How many of them, and under what interstate formula, will pick up that $116 million cost, if the Reagan administration kills Amtrak? And who'll maintain the passenger stations, which are not included in the $116 million? Isn't it likely that track and station maintenance — hence commuter services — will simply decline?

If Amtrak is demolished, not only will the $684 million savings (the 1985 subsidy level) be a drop in the huge bucket of a projected deficit above $200 billion; killing rail passenger service probably will cost the government billions over the following six years. That's because labor contracts inherited by Amtrak from the private railroad companies provide that any employee who loses his job because of a route discontinuance must be paid his full salary for every year he's worked, for up to six years. If the federal government now kills all Amtrak routes, the courts probably would hold it responsible for the inherited contracts; that would cost about $2.1 billion in "labor protection" pay over the six-year period — with *nothing* received in return.

BESIDES, IT'S a late day to lower the budget boom on Amtrak just after a federal investment of $3.1 billion in the system's infrastructure, its stations, maintenance facilities, computer systems, and new rolling stock (the passenger cars now in use on most routes west of the Mississippi are some of the most modern any nation can boast). Another $2.1 billion, moreover, has been spent on upgrading the Boston-Washington corridor, for a total of $5.2 billion in capital investment that's just beginning to pay off in improved service, reliability and economy to the taxpayer. Even grand old Union Station in Washington is now being restored to its original function — just as the Reagan administration decides to dismantle Amtrak, the only reason for having a Washington terminal.

So why kill Amtrak? Stay tuned, railroad buffs; the administration's flimsy excuses will be examined in another article.

N.Y. Times News Service



Reagan proposal poses risk to Amtrak facility

INDPLS STAR
2/7/85

By BRUCE C. SMITH
STAR STAFF WRITER

President Reagan's budget-slashing proposals, including an end of the federal subsidy for Amtrak rail passenger service, could cost the Indiana economy more than $38 million a year and deal a "terrible" blow to Beech Grove.

According to an Amtrak corporate spokesman, the bulk of spending in the state by the railroad is at the Amtrak maintenance and repair shops in Beech Grove. That facility is one of the rail system's seven largest centers.

Deborah S. Marciniak, Amtrak's manager of corporate communications in Chicago, said: "If this budget would be adopted as submitted, Amtrak would stop all passenger rail service in the next fiscal year."

That end would be October, but she stressed that Amtrak is funded until then and passengers should not lose confidence in the rail service.

The Amtrak spokesman said the railroad company's budget request for fiscal year 1986, to be submitted to Congress next week, will include the same $684 million federal subsidy received this year.

Amtrak has 1,375 workers in Indiana, mostly at the Beech Grove complex, who earned a total of $32.5 million last year, according to the company. Amtrak also spent about $6.3 million for other goods and services in the state last year.

That economic impact is boosted by an increasing numbers of Hoosiers who travel by Amtrak, Ms. Marciniak said. Almost 43,000 passengers got on or off Amtrak trains in Indianapolis in 1984, which was an increase from the 32,400 boardings and deboardings the year before. 1983

While some of the workers at the Beech Grove shops are disheartened by the newest budget crisis talk, others say they have heard it before and they survived.

"A lot of people are becoming very skeptical and they are ready to bail out," according to James Church, financial secretary of International Brotherhood of Electrical Workers Union Local 784. "That is pretty understandable for the guys trying to make a living. It is pretty hard to feel that you have a future. This could have an impact on the whole community."

Beech Grove Mayor Elton Geshwiler pledged to help Amtrak officials in every way possible to justify their budget request to Congress.

"It is a little early to push the panic button, but we will be very active in protecting our parochial interests," Geshwiler said. "In the worst of all scenarios, the loss of Amtrak would have a terrible effect" on Beech Grove.

Federal budget cuts that would strangle Amtrak would also hurt the city of Beech Grove's budget.

Geshwiler said the sprawling railroad repair facility has an assessed valuation of about $7 million, and pays local property taxes of about $700,000 annually. Beech Grove, one of just a few communities that collects property taxes from the usually tax-exempt rail company, uses about $250,000 of that money in its $3.5 million annual municipal budget.

LAFAYETTE J/C 2/6/85

Reagan budget derails Amtrak passenger trains

By Jay Cooperider

Journal and Courier

Clickety-clack, clickety-clack, that train might never be coming back, if Ronald Reagan has his way.

Amtrak, the nation's last remaining inter-city passenger rail system, might be going out of business. Under the Reagan proposed budget, Lafayette, Rensselaer and other cities on the Chicago-to-Indianapolis "Hoosier State" run, no longer would be served by passenger rail service.

Although Congress still will have a say for fiscal year 1986, the budget proposal asks nothing for the rail system. Amtrak got $684 million in federal money this year, but the deficit-conscious administration cut out Amtrak entirely for 1986.

Debbie Marciniak, spokesman for Amtrak's Chicago office, said, "If the proposal were adopted as it is, all inter-city rail service in the nation would stop."

Actually, approval of the proposed budget would be the final stop on the way to Amtrak's demise. Fiscal 1985 ends Sept. 30 this year, so money already is in place to keep the trains running until then.

In an effort to let the forces of the free market determine the the rail industry's fate, Reagan drastically cut the budget recommendation for Amtrak in 1981.

But Marciniak said the 1981 fight to remain on track was relatively easy and was accomplished by cutbacks. She said the 1986 proposal is entirely different.

"In 1981, the administration was asking for $613 million, and we fought for more. There's quite a difference between asking for $613 million as a starting point and asking for nothing," she said.

Currently, government money makes up 40 percent of Amtrak's budget.

If Amtrak goes under, 21,000 people will be out of work in 44 states. Another 4,000 people nominally employed by other railroads but regularly working for Amtrak also would be jobless.

Amtrak's unique federal subsidy requires the company to provide labor protection payments to laid-off employees. The subsidies are similar to severance pay. Such payments would cost Amtrak or the government more than $1 billion.

Amtrak serves 500 cities, including Lafayette. The Hoosier State stops at the Lahr House once in the morning on the way to Chicago and once in the evening on the way to Indianapolis.

Marciniak said about 45 people a day board or deboard the train in Lafayette.

Passenger rail goes the way of the passenger pigeons

Tony Button, president of the Lafayette Travel Service, said he is not surprised the Reagan administration wants to eliminate Amtrak, but he said he will miss the "Hoosier State."

"It's just a nice easy ride to Chicago," he said. "It's a real shame there may not be any more passenger service, because I am always talking to people who want to ride the train.

"But passenger service just can't be made profitable anymore," Button said. He said he has watched the steady decline of the passenger rail industry for the past 20 years.

"I've seen the demise of the regular passenger carriers and the onset of Amtrak to replace the passenger rail business," he said.

He said he will not be surprised if Congress fails to intervene to save Amtrak because the passenger rail service cannot be made more profitable. Instead, he said the passenger rail service may cease and return in a different form.

"Someday a few years from now someone may come along and open a non-union railroad that can make some money," he said. "They should because there are still a lot of people who want to ride the train."

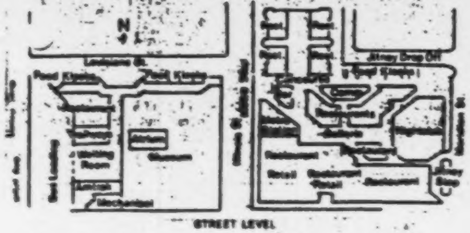
WEATHER TODAY
Chance of storms
High, 86; Low, 70
Yesterday
High, 82; Low, 70

THE INDIANAPOLIS STAR
"Where the Spirit of the Lord is, there is Liberty"—II Cor. 3:17

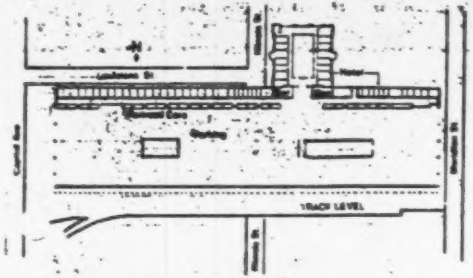
TODAY'S CHUCKLE
In September the doors of the nation's schools open wide once more, amid cheers from thousands of bright-eyed, eager mothers.

OLUME 80, No. 80 Copyright 1982 The Indianapolis Star THURSDAY, SEPTEMBER 2, 1982 ☆ ☆ ☆ ☆ 25c

Union Station hotel, shops, cafes proposed



Street level plan shows restaurants, shops
Nightclub, museum, galleria included



Track level has hotel rooms, sleeping cars
Parking provided for bus, train stations

By ROB SCHNEIDER

Indianapolis developer Robert A. Borns proposes to turn Union Station from an ugly duckling into a magnificent swan by spending as much as $30 million to renovate the building.

The proposal was one of two bids opened Wednesday by the Metropolitan Development Commission concerning the renovation of the historic Union Station.

The proposal, submitted by Borns and his wife, Sandra S. Borns, calls for:

- The restoration of the station's headhouse and upper and lower concourses of the train shed to accommodate a first-class hotel of approximately 130 to 200 rooms.
- Twenty to 30 restaurants and bars.
- Retail establishments selling "traditional and unusual merchandise" or everything from leather goods to imported cheese.
- Museums and tourist attractions, parking and a new transportation center for Amtrak, inter-city and regional bus service, jitney, taxi and limousine service.

IF THE PROJECT costs $30 million, Borns estimated about $22 million would be private money.

The city has received about $2 million in federal grants for the project and has applied for a $10.5 million grant which would be used to make repairs on Union Station to make it ready for the developer.

The other proposal was from the Cranston Development Co. of Pittsburgh, Pa. The company indicated it is interested in the project but its staff is still reviewing the costs involved.

The company did not submit a bid amount but did indicate it could accomplish what is outlined in the master plan for the station.

The Borns bid was accompanied by a certified check for $10,000.

The commission had set Wednesday as a deadline for proposals. It remains unclear whether the Cranston proposal will be considered since its bid did not contain any financial proposal as required in the specifications.

DAVID E. CARLEY, director of the Department of Metropolitan Development told the commission his staff will review the proposals and report back to the commission at its Sept. 15 meeting. The commission has until December to make a recommendation concerning the bids.

After the commission hearing, Borns, who was visibly excited about the project, explained the idea is to develop Union Station into a "real showcase of activity." The renovated Union Station will be a "knockout deal," Borns predicted.

If the proposal is accepted, Borns said, work would begin immediately on the entire project which he expects to complete within four years.

"The proposed development involves the restoration of Union Station and the adaptive reuse of the interior in a manner similar to Faneuil Hall-Quincy Market in Boston and Ghiradelli Square in San Francisco," the bid proposal says.

THE TRAIN STATION at Chattanooga, Tenn., has been converted to a similar use.

When the station was put up for sale, it was purchased and converted to meeting rooms, restaurants and shops in 1973. The Chattanooga

See STATION Page 18

Station

★ Continued From Page 1

Choo-Choo Hotel has 325 rooms in three buildings near the station. The station also has its own greenhouse, ice-skating rink and movie theater.

Borns said Union Station is "one of the finest buildings in the country." The Union Station Center will be a shopping and entertainment center for everyone from the metropolitan region, he added.

It will have something for those "who don't take home a huge paycheck" and for the well-to-do. There are plans for a high-class nightclub, something that Borns believes the city is now lacking.

THE CENTER may also include a wax museum plus space for the city's museums, such as the Children's Museum, to set up small exhibits to show what is available in the city's museums.

The submitted proposal says the project "insures that an historic structure and an important part of our city's past will be saved and creatively reused."

It will also serve as a "catalyst in the revitalization of the South Meridian Street Corridor and Historic Wholesale District. ..."

The rooms in the Headhouse will be designed to "recapture the historical quality of the Victorian era of the Headhouse. The Headhouse will include an atrium and perhaps a huge waterfall.

Other hotel rooms would be located on two levels of the train shed and run from Meridian Street to Capitol Avenue. Located parallel to the train shed, the rooms will be restored railroad cars transformed into "nostalgic sleeping rooms." The cars will form the north wall of the parking area and "provide an exciting backdrop for entry through the glass-enclosed galleria to restaurants and retail stores on the lower level."

THE UPPER LEVEL where tracks now pass through the shed would be converted to a parking area. The western end of the station project is nearly adjacent to the Hoosier Dome, now under construction.

Plans call for restaurants of various types and price ranges to be located at the east end of the train shed on the street level. A large number of retail shops and stands, as well as the nightclub, will be located in the restaurant area.

A "food court" is envisioned along the east-west concourse paralleling the north face of the building from Capitol Avenue to Meridian Street. Another major focal point of the restaurant-retail end of the station will be a galleria, which will be the location for mini-festivals.

The transportation elements of the center, such as Amtrak and bus terminal ticket area and waiting areas, will be located at street level of the west end of the train shed.

A "VERY ATTRACTIVE, fast delivery restaurant" is contemplated for the west end of the bus-train transportation area. A covered Metro bus stop will be located at Illinois Street. Adjacent to the stop and inside the street level of the old east

Federation of American Hospitals
Michael D. Bromberg, Esquire, Executive Director

National Offices 1111 19th Street, N.W., Suite 402
Washington, D.C. 20036 Telephone 202/833-3090

Update on Hospital Costs

January 28, 1985

1984 provided a test case for the idea that payer price consciousness and reliance on open markets can produce a fast, dramatic slowdown in the rate of hospital spending growth. Medicare's prospective payment system (PPS) was in effect for the entire year and private sector initiatives proliferated.

Costs

In 1984 the growth rate of hospital spending plummeted. Data from the American Hospital Association show that hospital spending for the quarter ending October, 1984 rose only 4.2% over spending for the quarter ending October, 1983 (Exhibit One). The comparable growth rates for 1983 and 1982 were 9.2% and 15.0% respectively. The main reason why total spending rose no more than the Consumer Price Index (CPI-U) for the quarter ending October (the latest period for which data are available) is that admissions actually declined. In response, hospitals for the first time since World War II have cut the number of full time personnel from 3.19 million to 3.13 million.

Medicare

The initial results from Medicare's introduction of a prospective payment system for hospitals have been promising. In fiscal 1984, for example, actual Medicare Part A spending was $2.2 billion or 6% less than originally projected by the trustees of the Hospital Insurance (Part A) Trust Fund (Exhibit Two).

Hospitals have demonstrated that with appropriate incentives, they will vigorously cut costs, but there is a problem. While they understand the need to accept their fair share of budget cuts, many hospitals question whether the federal government will make a good faith effort to live up to its commitments. When the Social Security Amendments of 1983 (PL 98-21) were passed, hospitals were told that:

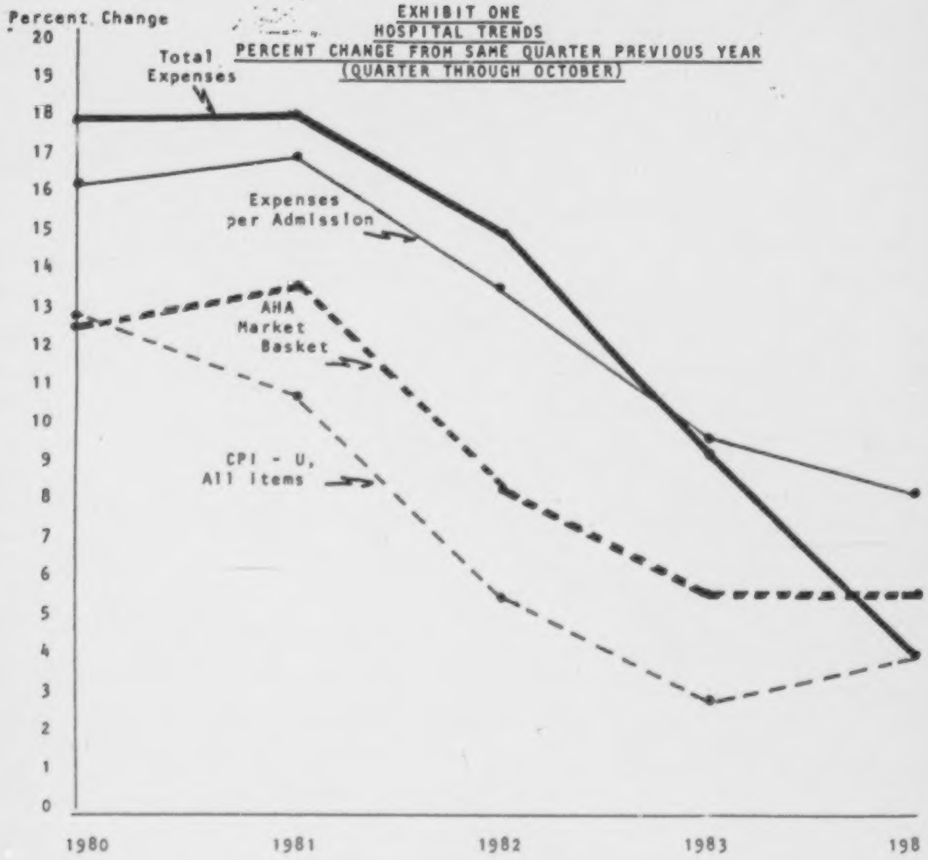
- they would be paid a fixed price per diagnosis and would be allowed to pocket the difference between their cost and what they were paid.
- their payment rates would be increased annually by the increase in the cost of their inputs (the hospital marketbasket) plus 1% for technology upgrading.

Congress in the Deficit Reduction Act of 1984 (PL 98-369) reduced the technology factor to .25%. At the same time, the Department of Health and Human Services (HHS) limited the annual marketbasket increase to the actual input cost increase minus 1.05% on the theory that hospitals were reporting an unjustifiable increase in the number of higher complexity and therefore higher paying cases. Hospitals argued that the more complex case mix was the result of more accurate coding and was a one time phenomenon. Now for fiscal 1986 the Office of Management and Budget (OMB) is proposing a freeze on payment rates to hospitals. If Congress and the executive branch impose a dosproportionate share of the burden of budget cuts on hospitals, they will be forced either to cut the intensity of service to Medicare beneficiaries or to adopt a more confrontational posture. Cooperation, essential to patients' receiving the greatest value for the dollar, will be replaced by mistrust and acrimony.

Private Sector Costs

By 1982 the idea had become widespread that health and hospital costs could not be contained without rate regulation. Advocates of hospital rate controls argued that open market approaches with their reliance on incentives and greater price competition among providers would take too long to work and would have too little effect. Experience since 1982 has proved this view wrong. For example, the Blue Cross and Blue Shield premium for non-postal federal employees will rise only 3% in 1985 compared to a nearly 25% rise in 1983. The Aetna plan whose premium cost rose 34% in 1983 will cost over 6% less in 1985. These dramatically lower premium rate increases would not have been possible had local hospital markets not become much more cost conscious.

EXHIBIT ONE
HOSPITAL TRENDS
PERCENT CHANGE FROM SAME QUARTER PREVIOUS YEAR
(QUARTER THROUGH OCTOBER)



	80/79	81/80	82/81	83/82	84/83
Total Expenses	17.9	17.9	15.0	9.2	4.2
Expenses per Admission	16.1	16.8	13.8	9.4	8.3
AHA Hospital Market Basket	12.6	13.5	8.1	5.4	5.7
CPI - U, All Items	12.7	10.7	5.3	2.8	4.2

Sources: American Hospital Association
Bureau of Labor Statistics

EXHIBIT TWO

Medicare Part A Spending * -- Actual Vs. Projected

Year	Projected	Actual	Actual % Change Over Prior Year	Difference Between Projected And Actual	
	$(Million)			$(Million)	%
1983	38,547 1)	38,102 2)		-445	-1
1984	43,680 1)	41,476 2)	8.9	-2,204	-6
1985	50,886 3)	--			

* Medicare Part A spending breaks down as follows:

	%
• Hospital Care	95
• Home Health	4
• Skilled Nursing Facilities	1

---

1) Source: Health Insurance Fund Trustees Reports 1982 and 1983

2) Source: Health Care Financing Administration

3) A soon-to-be-published update of this estimate is expected to be significantly lower.

FACT SHEET

HUMANA INC.

Humana Inc. began business in 1962 with the opening of its first nursing home in Louisville, Kentucky. David A. Jones and Wendell Cherry, who founded the company, still serve as its Chairman and President respectively. Under their leadership the company, known then as Extendicare, rapidly grew to become the largest nursing home system in the U.S.

Expansion into the hospital field began in 1968 with the construction of its first hospital in Huntsville, Alabama. The company's full resources were concentrated on developing a network of high quality, cost efficient hospitals following the sale of the Extendicare nursing home system in 1972. Its former name was changed to Humana Inc. in 1974.

Humana views the pursuit of medical excellence as its most important task. The company's Mission Statement is the focal point of its commitment:

> The mission of Humana is to maintain an unequaled level of measurable quality and productivity in the delivery of health services that are responsive to the values and needs of patients and physicians.

In the era where the continued demand for quality health care is matched by the need to control costs, Humana provides an integrated system of high quality, cost efficient health care services through its three operating division:

Hospital Division

Humana owns and operates 89 hospitals containing some 17,900 beds in 22 states, England, Switzerland, and Mexico. In the past year, approximately 570,000 patients were treated at Humana hospitals.

As a reflection of Humana's commitment to medical excellence, the Center of Excellence program was established at Humana hospitals in 1982 to support practicing physicians who excel in their specialty so that they can undertake clinical research and medical education programs in conjunction with their private practices. A Center of Excellence is a medical referral and consultation center at a Humana hospital that provides the surrounding region with the highest quality of care in a given clinical specialty. Currently 11 Centers of Excellence have been designated in the clinical specialties of burn care, cardiovascular disease, diabetes, neurosciences, women's medicine, orthopedics and spinal injury.

Humana is recognized as a leader in the hospital industry in providing high quality, cost efficient health care services. Through centralized purchasing, computer services and flexible staffing techniques, the cost per admission at Humana's hospitals averages 19.4% less than other hospitals in the same communities with the same types of patients.

Health Services Division

In 1981 Humana began developing a network of freestanding, extended-hour, medical treatment centers and today is the leader in this rapidly growing field.

More than 80 MedFirst units are located in 13 states and provide consumers with primary medical care at least 12 hours per day, 7 days a week. The number of Humana MedFirst offices is expected to grow to approximately 200 by September 1985. In the most recent fiscal year ended August 31, 1984, Humana MedFirst offices had approximately 900,000 patient visits.

Calumet Project for Industrial Jobs
A Joint Effort of the Midwest Center for Labor Research and United Citizens Organization

4012 Elm Street
East Chicago, IN 46312
219/398-6393

TESTIMONY OF CALUMET RAILCAR TASK FORCE
SUBMITTED TO SENATE BUDGET COMMITTEE HEARING
HAMMOND, INDIANA
FEBRUARY 25, 1985

The Calumet Railcar Task Force is a working committee of the Calumet Project for Industrial Jobs, which is a joint effort of the Midwest Center for Labor Research (MCLR) and the United Citizens Organization (UCO). The Task Force grew out of a regional conference held last November on the crisis in the region's railcar industry (see attached conference agenda) and includes in its membership labor and management representatives from nearly all of the Northwest Indiana railcar and railcar parts manufacturers, as well as agencies which use cars and parts, plus elected and appointed government officials involved in rail transportation and economic development work (see appended list of organizations represented in Task Force).

Today the Senate Budget Committee is receiving testimony from two other organizations on the proposed budget cuts for Amtrak and mass transit. The emphasis of these presentations is on service, ridership and employment impacts these cuts would have if various commuter trains and bus systems were curtailed or eliminated.

INDUSTRIAL IMPACT: AN OVERLOOKED ASPECT OF TRANSPORTATION POLICY

We would like to offer another perspective which has in the past been largely overlooked when Amtrak and mass transit subsidies were debated: the role these services play in the Northwest Indiana region's industrial infrastructure. We believe that reduction or elimination of Amtrak and mass transit would have a severe impact upon the "cluster" of railcar/parts manufacturers in this region, with significant side effects on employment, supplier industries, future rail industry development and the viability of the area's metal-working complex as a whole.

The Calumet region has traditionally been one of the largest clusters of railcar/parts production in the United States. In the last four years, that cluster has been greatly weakened by the shutdown of the Pullman-Standard passenger car plants in Hammond and South Chicago, its freight car parts plant in Hammond, the Stan-Ray (Abex) freight car parts plant in Hammond and the General American (GATX) freight car plant in East Chicago. Besides these shutdowns, the area's railcar industry has been weakened by the fact that freight car manufacturing is now the most depressed major industry in the U.S., operating at only about 10 percent of the levels it was producing at in the late 1970s. We are lucky we have not lost more producers than we have. The Calumet railcar/parts cluster, traditionally the region's third-largest metal-working employer (after basic steel and fabricated metals), is fragile and requires careful attention.

Besides the above-mentioned shut down plants, the cluster's surviving members include the Union Tank Car Company in East Chicago, the American Steel Foundries plants in East Chicago and Hammond, Standard Forgings in Hammond, Stanrail Corporation and Simmons-Stanray Wheeel Truing Machine Corporation of Hammond, the South Shore repair shops in Michigan City, and the GATX repair shop in East Chicago. These plants, in turn, are linked to Illinois producers such as Thrall Car in Chicago Heights and Griffin Wheel in Bensenville. These manufacturers have a combined employment now of at least 1,800; roughly 3,000 jobs were lost between 1981 and 1984 due to shutdowns.

A study of the iron & steel complex of Northwest Indiana done in 1974 shows how integral railcar/parts manufacturing is to the region's industrial infrastructure. The study found that railcar manufacturing is more closely tied to the area's steel mills than any other sector, as measured by the proportion of locally-produced steel it uses (85 percent), that it is more closely tied to the region's foundry output by local consumption than any other sector (75 percent) and that overall it is the most broadly-linked sector in the region's steel complex, drawing on production from eight other sectors, including basic steel, ferrous foundries, non-electrical machinery, bolts/nuts/rivets/washers, and sheet metal work.

HOW AMTRAK BENEFITS FREIGHT CAR DEMAND

It is a little-discussed fact that Amtrak has contributed substantially towards saving and improving the quality of railroad trackage which is also used to carry freight. By helping keep more track open and upgraded, Amtrak makes freight railroads more competitive, and that means more demand for the freight cars built and maintained by our remaining Calumet producers.

These Amtrak benefits to freight carriers take several forms. First, there is the $238 million which Amtrak pays annually to private railroads for maintenance of the railroads' tracks and labor of crews. These fees provide the railroads with extra capital to maintain their rights of way.

Then there are funds which have been allocated to Amtrak specifically for upgrading trackage which it runs on, in order to allow Amtrak trains to run on faster schedules. One important local example of this is the $13 million which Amtrak spent to rehabilitate track between Chicago and Indianapolis. This track, owned by the Louisville & Nashville and by Conrail, was transformed from some of the worst track Amtrak ever ran on to very adequate track for both passenger and freight today, and the rails used were made in Northwest Indiana steel mills.

Finally, the Federal Railroad Administration (FRA) grants funds to various railroads to upgrade routes used by Amtrak trains. These fixed plant improvements (mostly track rehabilitation), which between 1971 and 1983 totalled $1.228 billion for both freight and passenger routes (breakdown not available), not only mean Amtrak trains are faster and more reliable; they also preserve and improve freight service. (The proposed budget calls for the elimination of the FRA's plant improvement program. The FRA's program of loan guarantees to enable railroads to purchase equipment, which has guaranteed $216 million in loans for railroads, is also slated for elimination.)

If we total up Amtrak's fees to railroads to date, Amtrak's direct expenditures on track rehabilitation, and the FRA grants to improve routes used by Amtrak, we find that Amtrak has contributed substantially directly and indirectly to the improvement of railroad-owned trackage.

This analysis excludes the enormous capital investment Amtrak has made in the Washington-New York-Boston Northeast Corridor, which Amtrak purchased from Conrail. To date, Amtrak has spent $2.1 billion on improvements to upgrade that multi-track corridor to 125 m.p.h. This investment has not only made Amtrak's Northeast service very competitive, it has enhanced freight and commuter service in that region. Amtrak estimates that if it were defunded, eight carriers (four freight and four commuter) would incur new annual service expenditures of $212 million to operate Amtrak's right of way. Most of the new costs would accrue to the freight carriers, especially Conrail.

Another Amtrak benefit to freight business which does not show up in these balance sheets is the fact that Amtrak's use of a route may actually spell the difference between maintenance and abandonment. Rail advocates believe, for example, that if it were not for Amtrak's Broadway Limited, Conrail would likely have abandoned its Valparaiso-Ft. Wayne-Crestline, Ohio, route. This could be a serious blow to shippers and manufacturers who rely on service between those points; lack of rail service is sometimes a contributing factor to plant shutdowns.

In summary, the large sums Amtrak has contributed to non-corridor railroads and the $2.1 billion it has invested in the Northeast Corridoor add up to a significant contribution for saving and improving trackage used by freight trains. This, in turn, has helped sustain the demand for freight cars built and maintained in Northwest Indiana.

HIGH-SPEED RAIL: POTENTIAL OPPORTUNITY TO REVITALIZE THE CLUSTER

Indiana has joined other states in the region in the federally-sanctioned Midwest High-Speed Rail Compact, a joint effort by midwestern states to study, plan and implement high-speed rail transportation projects. Although the state legislature has to date declined to allocate funds for any feasibility studies on potential routes, it did in 1982 set aside the rights-of-way of Interstate highways in Indiana for high-speed rail use where feasible.

If there is to be high-speed rail in Indiana and in the Midwest, Northwest Indiana is a logical place for the manufacture of cars, tracks and other equipment (much of which will involve the implementation of new technology) necessary for its construction. The construction of high-speed rail would create jobs in the construction, railcar, steel/iron and machinery sectors.

Ohio and Pennsylvania are farther along in the planning process for high-speed rail and are targeting manufacture of equipment to maximize job creation; Indiana may adopt the same strategy. Also, some proposals have been made to couple high-speed passenger rail with light freight hauling to help increase revenues, so this may not be a strictly passenger transportation issue.

Rail advocates present a convincing argument that improvement of rail service from Amtrak's present structure to future high-speed projects is a matter of incremental development. If that is true, then the development of the industrial infrastructure to support that growth is also an incremental process. If the existing infrastructure which now supports mass transit, Amtrak and freight car manufacture is set back by the elimination or reduction of mass transit and Amtrak, it will make it that much more difficult and expensive to develop the industrial base needed to support high-speed rail.

OTHER AMTRAK AND MASS TRANSIT BENEFITS FOR THE REGION AND STATE INDUSTRIAL INFRASTRUCTURE

Amtrak employs 1,375 Indiana residents, whose annual payroll totals $32.3 million. In fiscal 1984, Amtrak spent over $6.3 million for Indiana goods and services, patronizing 13 vendors in Gary, Hammond, and East Chicago, and 342 vendors in Beech Grove and Indianapolis. Most of Amtrak's Indiana employees work at its national car repair and maintenance facilities in Beech Grove; somee Northwest Indiana residents work in Amtrak's midwestern maintenance yard in Chicago.

The South Shore Railroad employs 100 people in its mechanical department in Michigan City. Since 1982, the Northern Indiana Commuter Transportation District has spent about $60 million upgrading the South Shore's fleet, electrical substations, and maintenance shops. Besides these long-term improvements, the South Shore patronizes dozens of Northwest Indiana vendors, but it was not possible to rapidly assemble a detailed outline of those expenditures.

The Regional Transportation Authority's railroad arm, the Northeast Illinois Railroad Corporation, also patronizes numerous Calumet region vendors; unfortunately, detailed data on its business volume in the area could not be developed on such short notice.

CONCLUSION

Northwest Indiana manufacturers and workers have a proud history of building versatile, popular passenger and freight cars and there is every reason to believe that they can continue to do so in the future. Pullman-built double-decker commuter cars provide reliable service every day to the Regional Transportation Authority in the Chicago area. The Union Tank Car facility in East Chicago is the most modern tank-car plant in the country. When the word got out in 1981 about Amtrak's comfortable new Pullman-built Superliner cars, Amtrak had to say "Sorry, all booked up," to 400,000 callers a month who were seeking space on just the three trains between Chicago and the West Coast. Amtrak and the South Shore Railroad both need more cars to meet peak demand, and although the freight car market is still depressed, manufacturers are emerging from the shakeout more flexible and competitive.

There is a strong desire among Northwest Indiana manufacturers, workers, unions, development officials, rail advocates, and elected officials to preserve and revitalize the railcar cluster. Every union local has made significant concessions during the past few years, companies have adapted their businesses to cater to the depressed demand, and former managers of the shutdown Stan-Ray plant are struggling to resurrect some niches of the parts market through the Stanrail Corporation. The enthusiasm which led to the formation of the Calumet Railcar Task Force is eloquent testimony to the willingness of all parties concerned to assist and participate in any efforts to reinvigorate the cluster and bring railcar jobs back to Northwest Indiana.

While Amtrak and mass transit are not the largest direct clients for most of the area's producers, they do affect the markets for area products, and minor fluctuations in demand may spell the difference between whether a plant survives or is shut down. This is especially true given the tight margins so many producers are operating on now with the crash in freight car demand. Even a profitable plant which is not profitable enough may be shut down; such was the case at the GATX plant.

If the Calumet region is to benefit from any future high-speed rail development, it will need all the precious resources -- skilled labor and management, supplier linkages and existing passenger rail infrastructure -- it can get to benefit from economies of scale, proximity of materials and previous incremental improvements.

It is with these facts in mind that we hope the Senate Budget Committee will weigh carefully the President's proposed elimination of Amtrak and reduction in mass transit subsides. Because of the short notice upon which this testimony had to be prepared, the Task Force has not had an opportunity to meet and approve its precise language; instead, the above testimony is derived from presentations made to our regional conference last fall and from data gathered hastily from various Task Force members. The Task Force may sometime in the future consider a resolution on this subject and pass such a consensus along to the Committee. As well, the Midwest Center for Labor Research and the United Citizens Organization are not for profit, educational institutions. They provide this testimony for the informational purposes of the Senate Budget Committee in its deliberations; it is not intended as a lobbying effort on the part of MCLR, UCO, or any other member of the Task Force.

Respectfully submitted by Greg LeRoy, Project Director.

ORGANIZATIONS AND INDIVIDUALS REPRESENTED IN CALUMET RAILCAR TASK FORCE

Steelworkers Local #1133, GATX repair shops
Indiana Association of Railroad Passengers
Boilermakers Local #524, Union Tank Car Company
South Shore Railroad
City of Hammond Economic Development Department
Steelworkers Local #1132, American Steel Foundries, Hammond
State Senator John Bushemi
Stanrail Corporation
American Steel Foundries
Northwestern Indiana Regional Planning Commission
Steelworkers Local #1208, American Steel Foundries, East Chicago
City of East Chicago Economic Development Department
Congressman Peter Visclosky
Union Tank Car Company
Simmons-Stanray Wheel Truing Machine Corporation
Rey Robles, former recording secretary, Steelworkers Local #1834, Pullman-Standard
Amtrak, Government Affairs Representative Kevin Kayes
Railway Progress Institute, President Robert Matthews

OTHER ORGANIZATIONS INTEGRAL TO CALUMET RAILCAR CLUSTER

Standard Forgings & Steelworkers Local #1720, Hammond
Thrall Car Manufacturing Company & Boilermakers Local #1252, Chicago Heights
Evans Railcar Division and Evans Products Division, Blue Island
Star Railroad Equipment, Schererville
Interstate Rail Service, Chicago Heights
Griffin Wheel, Bensenville

Conference Agenda

8:30 AM to 9:30 AM Registration and Film Showing- –see "The Last Pullman Car" a new documentary on the shutdown of the Pullman-Standard Passenger Car Works in Hammond and South Chicago.

9:30 to 10:00 Conference Welcome, Local Union Leaders Report on Conditions at Their Plants Today

10:00 to 11:30 National Trends in Freight Car Manufacturing: What Can Northwest Indiana Expect?

Freight car building remains the most depressed major U.S. industry—why? Are changes in the railroad business changing the car market? Are there new growth markets for area products? Are there regional shifts in railcar production? If so, why? What can be done to stimulate and stabilize the freight car market, and revitalize Calumet region production?

Panelists: Robert Matthews, President, Railway Progress Institute
Craig Duchossois, President, Thrall Car Manufacturing Company
Elwyn Ahnquist, President, American Railway Car Institute
Edward Ghearing, Assistant Director of Research, United Steelworkers of America
Thomas DuBois, Staff Researcher, Calumet Project for Industrial Jobs
L. Kulekowskis, Vice President of Operations, Union Tank Car Company
Leonard Beauchamp, Director of Research, International Brotherhood of Boilermakers

11:30 to 12:45 High-Speed Rail Proposals: How Could They Benefit Northwest Indiana?

Construction will begin in 1986 on a high-speed "bullet train" between Los Angeles and San Diego. Indiana has joined other Midwest states to plan for high-speed rail projects. These bullet trains require new technology and new products—will they be developed in Northwest Indiana, building on the railcar infrastructure already in place? Will this industry of the not-so-distant future bring new jobs to the Calumet region?

Panelists: Charles Short, President, Indiana Association of Railroad Passengers
John Bushemi, Indiana State Senator
John Laue, Marketing Director, Northern Indiana Commuter Transportation District

12:45 to 2:00 Community/Labor Initiatives to Revitalize Rail Equipment Jobs in Northwest Indiana

Three abandoned plants and thousands of unemployed workers represent an opportunity for new development. A proposal to have the area's abandoned and surviving plants studied and assessed to see how they can best be put together to create jobs and new production will be discussed.

Panelists: Doug Cassel, Attorney, Business and Professional People for the Public Interest
Alan Kress, Economic Development Planner, City of Hammond
Jack Metzgar, Research Director, Midwest Center for Labor Research
Mary Kazcka, Director of Business Development, City of East Chicago
Alex Czajkowski, Vice President, Steelworkers Local 1133, GATX
Norm Tufford, Executive Director, Northwestern Indiana Regional Planning Commission

FEDERAL FUNDING AND NW INDIANA'S LIBRARY SERVICES

General

In FY 1985 (October 1, 1984 - September 30, 1985) Indiana will receive $1,600,000 under Title I (Public Library Services), $540,000 under Title II (Construction), and $401,000 under Title III (Interlibrary Cooperation) of the Library Services and Construction Act (LCSA). These vital federal dollars have benefited Indiana as a whole while bringing otherwise unobtainable services to the library patrons of NW Indiana's Lake, Porter, LaPorte, Jasper, Newton, Starke and Pulaski Counties.

NW Indiana

In FY 1984, LSCA brought $178,600 into NW Indiana. These federal funds were spent as follows:

- $29,722 to provide the staff to circulate 33,000 talking books by mail and through deposit collections to 1,215 blind and physically handicapped readers.
- $89,863 - or 60% of the $149,763 expended in FY 1984 - to support reference, interlibrary loan (11,619 books from throughout Indiana and the United States), group discounts, film, online computer, workshop, and consulting services to the 64 library, school and institutional members of the Northwest Indiana Area Library Services Authority (NIALSA) and their users.
- $43,638 to minimally reimburse area public libraries for lending approximately 125,000 items to patrons of other public libraries under Indiana's reciprocal borrowing program. Reciprocal borrowing allows non-local patrons to walk into participating public libraries and walk out with books to which they would not otherwise have access.
- $9,377 to the Gary Public Library as a Major Urban Resource Center.
- $6,000 ($3,000 each) to help support the libraries of the Indiana State Prison at Michigan City and the Westville Correctional Center.

One way to view the effectiveness of the library services made available to NW Indiana residents through federal support is to assign the services a dollar value. The 1984 Bowker Annual of Library & Book Trade Information reported the 1983 average price of a hard cover book, including expensive reference books, at $30.89. Deducting a 33% library discount but not including the costs of ordering and processing the books, leaves a cost per book of $20.66. With this figure the:

- 11,619 FY 1984 books borrowed on interlibrary loan by NIALSA for local residents from throughout the nation were worth $240,049.
- The 125,000 FY 1984 books directly borrowed by local residents through reciprocal borrowing from other public libraries were worth $2,502,500.

This total value of $2,822,549 for just two services represented nearly a $16 return per federal dollar invested. Since local libraries are not legally required to share their resources, NW Indiana would suffer significant loss should federal support no longer be available for such cooperation.

Bill Crowley, Administrator
NW Indiana Area Library
Services Authority

Richmond Area Chamber of Commerce, Inc.
600 Promenade Richmond, Indiana 47374 (317) 962-1511

February 7, 1985

The Honorable Dan Quayle
SH 524 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Quayle:

Thank you, Senator, for the opportunity to represent the Richmond, Indiana Area Chamber of Commerce to comment on our Federal Budget. Please recognize that the Chamber of Commerce represents a total cross section of Richmond, Indiana and Wayne County from small business to large industry, from urban problems to the farming community, from the performing arts to economic development, and from labor relations to media relations. To recognize this spectrum is necessary because the Chamber's viewpoint must be very broad and encompassing. With this mind set, allow me to comment on areas that affect all of Richmond and I'm confident the "Richmond's" of Indiana and our nation.

- We must focus on the federal deficit and its reduction. Bringing the deficit under control will play a major role in addressing high interest rates and exports.
  - We need not expand on how high interest rates impacts individuals, agriculture, small and large business and economic development. We must give relief to interest rates so business can be financed and still maintain profits in a non-inflationary economy.
  - High interest rates affect our position in world trade by creating a strong dollar overseas and pricing us out of the world market. With high interest creating high cost, we become non-competitive and our export customers cannot afford to buy as much of our finished product as they desire. This is particularly true in agriculture, which is a major part of Richmond, Indiana's economy. Agriculture is a market-oriented industry and that market must be available and profit oriented.
  - Through Congressional leadership, we must resolve to cut government spending and reduce the deficit.
- As to government spending, we recognize that this will be painful for those who are affected. The voice I hear in our community is that we're ready to bear that pain if two things happen.
  - There are no sacred cows. Custs must be made across the board. The Grace Commision Report can provide many examples of how cuts can be made and government run more efficiently.

  - *That cuts not be made too deep on programs that have become a way of life. A plan should be put in place to wean away from these programs. Years of past subsidies in many areas have forced these businesses into dependency. Sudden elimination of these programs creates havoc in that sector of our economy. Again, this is specific in areas of farm supports and small buiness.*
  - *These are hard decisions but Congress must make them. To continue deficit spending and raise taxes would be a demonstration of hesitancy to make the hard choices.*

- *Congress must support ways to simplify our tax code. Currently, it is too complex and in its complexity, Richmond, Indiana corporations, large and small, are finding they are paying 45-46% of corporate income in taxes. Capital investment credit is not proving adequate. Business needs tax reduction.*

Senator Quayle, as a representative of the Chamber of Commerce of Richmond, Indiana, I believe that the President, Congress, and the business community have an outstanding opportunity to make reductions in the deficit and set the course of economic prosperity. President Reagan was re-elected with another mandate to continue growth oriented policies. In election campaign activities, both sides of the aisle agreed we must reduce deficit spending. We are at the crossroads of decision making as we address this budget.

Again, thank you for this opportunity.

Sincerely

Jon A. Ford

Jon A. Ford
President
Chamber of Commerce

jm

city of beech grove

beech grove, indiana 46107 ❊ (317) 787-6577 elton h. geshwiler, mayor

February 11th 1985

The Honorable Dan Quayle
United States Senator
Washington, District of Columbia

Dear Senator Quayle:

I appreciate the opportunity to present important, vital information about the effect of zero budgeting for Amtrak in FY-1986.

In addition to the information I present to you about the problems created nationally if the proposed zero budgeting for Amtrak is adopted, I want you to know that this action will have a devastating effect upon our City, its Schools and Library. Approximately 12% of our annual property tax revenues are paid by Amtrak. In addition, Amtrak pays approximately a quarter of a million dollars in property taxes to consolidated government in Marion County each budget year.

One point I'd like to stress is the fact that Amtrak's labor protection costs has the potential of generating a liability of $800,000,000 in FY-86. These are million of dollars that do not benefit the public in any manner whatsoever.

Sincerely,

Elton H. Geshwiler
EHG:s

IMPACT OF ZERO BUDGET ON AMTRAK

1. Over 25,000 people, at least some in each of 44 states, will be out of work (21,000 Amtrak employees and 4,200 employees from the contract railroads around the country).

2. Amtrak's labor protection costs, based on previous experience, are conservatively estimated to be $2.1 billion over the six-year period of eligibility. The first year payout will be in the range of $600 million at an 80 percent participation rate. If participation were 100 percent, payment in the first year would be approximately $800 million. These, of course, are payments from which neither the government nor the public derives any benefit in service or value. If Amtrak ceases operations totally and has insufficient funds to pay labor protection to affected employees, claims will undoubtedly be brought against the United States government for those payments. While the outcome of litigation on those claims is unclear, it is certain that the litigation itself will be costly, and it is certainly possible that the government will be held responsible for the payment of such benefits. Amtrak's labor protection arrangements were mandated by congressional legislation, and appropriations identified for these payments have been adopted from year to year. In any event, moral and political considerations may compel Congress to assume responsibility for those labor protection costs.

3. The federal government has funded capital equipment for Amtrak that now has a depreciated value of over $3.1 billion. This includes rolling stock of $1.0 billion, Northeast Corridor and heavy maintenance shops $1.8 billion, and stations and miscellaneous $0.3 billion. Salvage value on most of this investment will be minimal in the absence of all intercity rail passenger service.

4. In addition to federal government investment, a number of states have contributed in excess of $100 million in capital expenditures for Section 403(b) trains as well as stations and high-speed track improvement for intercity rail passenger service. This investment will be lost if Amtrak is phased out.

5. Amtrak currently carries 20 million passengers each year. The total elimination of rail passenger service will leave many communities, particularly in the more sparsely settled areas of our country, without any common carrier passenger transportation. Even travelers that can count on other modes under normal conditions find they must depend on Amtrak in the event of weather emergencies or labor strikes; in the absence of intercity passenger service, at times all transportation will cease along major routes.

6. Amtrak currently operates and maintains the Northeast Corridor for the benefit of Conrail and numerous commuter agencies as well as for its own use. If Amtrak is eliminated, Conrail and the commuter agencies will have to absorb some $116 million in additional costs, on top of the $56 million they now pay, in order to continue their operation on the Northeast Corridor.

7. In addition, commuters will have to pick up extra fixed costs (unknown) that Amtrak now bears in connection with equipment maintenance and fixed facilities.

8. On termination of service, it is probable that Amtrak will have to file for bankruptcy; and in any event, there will be a large administrative cost of a shut-down, including terminating long-term leases for computer equipment, vehicles and Metroliners. The closing of stations and facilities will also take considerable time. In addition, an expensive work force will be required to administer C-2 payments to over 21,000 people.

9. Elimination of Amtrak Northeast Corridor service will have disastrous results on passenger travel there. In 1984 the average travel by combined air/rail to and from New York/Newark, Philadelphia, Wilmington, Baltimore and Washington was 29,500 people per day, of which Amtrak carried 17,500 and all airlines combined carried only 12,000. Even between New York/Newark and Washington alone, Amtrak carried 2,700 or 23 percent of the 11,500 daily passengers carried by air and rail between these cities. Elimination of Amtrak service will add enormously to air and highway congestion in this corridor, and will require billions in additional federal investment for airport and highway construction.

10. Elimination of intercity rail passenger service also has serious implications for transportation in national emergencies, including that needed for national defense. Amtrak has in daily operation equipment offering almost 70,000 seats and 6,000 sleeping car berths, as well as requisite food service cars. We have been working closely on emergency plans with the Federal Emergency Management Agency (FEMA) as well as with the Army's Logistics staff at the Pentagon. In the event of a national crisis of any sort, Amtrak is in a position to make available almost immediately 75 percent of its total capacity, with the remainder becoming available within 48-72 hours. This capability will be totally lost if Amtrak is phased out.

11. Finally, elimination of Amtrak's appropriation will be quite different from eliminating the appropriation for the cost of living increments to pension or Social Security benefits, for example. These could be restored at any time the condition of the budget permitted it, without structural damage. A zero Amtrak budget, however, will destroy a going concern that it has taken 14 years to build and that, once dismantled, cannot be replaced without enormous cost. There is a big difference between avoiding an expense and liquidating a going concern with over $3 billion in capital investments and 20,000 employees. Amtrak has made a great deal of progress in reducing our dependence on federal funds while at the same time improving the quality of our service. Each year we are improving the ratio of our earned revenues to our total costs; in the last few years, our revenue-to-cost ratio has improved from 48 percent to 56 percent, and we anticipate a ratio of 58 percent in 1985 and 60 percent or better in 1986. As a result of this improvement, when measured in constant dollars our appropriation for operating costs for the current year is 26.6 percent below that for fiscal year 1981, and our goal is to do even better. Amtrak can maintain (not expand) our existing service with a budget freeze in 1986.

February 1, 1985

Amtrak Service and Ridership

Amtrak operates a total of 11 trains through Indiana--including the long-distance Lake Shore Limited (Chicago-Toledo-Albany-Boston-New York), Broadway Limited (Chicago-Pittsburgh-New York), International (Chicago-Toronto), and Cardinal (Chicago-Cincinnati-Washington, DC-New York), and serves the following stations:

City	FY-84 Ridership
Crawfordsville	5,488
Dyer	3,977
Elkhart	14,003
Fort Wayne	23,261
Gary (Broadway)	3,759
Gary (5th & Chase)	7,500
Hammond/Whiting	31,472
Hobart	5,045
Indiana Harbor	8,682
Indianapolis	43,243
Lafayette	15,934
Michigan City	3,762
Muncie	3,522
Marion	2,462
Peru	2,220
Rensselaer	3,951
Richmond	1,583
South Bend	15,553
Valparaiso	15,576
Wheeler	24
Whiting	3,126
Total Indiana Ridership	214,142

AN EQUAL OPPORTUNITY EMPLOYER

- Procurement/Contracts

Amtrak expended over $6.3 million for goods and services in Indiana in fiscal year 1984. The following cities provided a major portion of those purchases:

City	FY-84 Amtrak Expenditures
Elkhart	1,216,844
Indianapolis	3,822,028

- Employment

Amtrak employs 1,375 of Indiana's residents whose annualized earnings total about $32.3 million.

Senator Quayle, Ladies/Gentlemen:

My name is Richard Grauel, I speak for Small Business for the Chamber of Commerce. My wife and I have 12 stores in Indiana so we see a good cross section of this wonderful state. The college towns, the auto towns, the farm towns. We are native Hoosiers and proud of it. Conservative to the very core, but mad as can be about this federal deficit and Reagans budget that puts the entire load on the backs of the poor, the small business and the farmer one more time and has almost zero effect on the deficit itself.

This deficit causes the dollar to go higher and higher making our farm products, steel, and autos even less competitive world wide. Oh, we just got word that the unemployed steel worker or bankrupt farmer can buy more for his dollar when he vacations in Europe or Japan this year.

We Hoosiers are part of the most efficient people on earth. Farmers produce more products per man hour than anybody on earth, our steel mills in Indiana are some of the best, and our auto workers took pay cuts, work more efficient, but because the president does not have the people to attack the real problem headon, the deficit brings in foreign dollars that drive up the value of the dollar and make all this for nearly naught.

My business, like all others, lives on borrowed dollars and while 12% is better than 20%, we are on floating interest, so there is no guarantee it won't be 20%. So we borrow and we borrow and we get ulcers waiting to see what the government statistics show to see if we live or die yet another month. Because it is foreign dollars that brought the interest down.

Small business has been the main driving force in putting Indiana and the Nation back to work. All this in spite of every bit of red tape Washington could put in front of us. In every community, small business has started, grown and become the ones to take in those unemployed by big business. Take a look and you will find the Fortune 500 has fewer people employed today than in 1979.

The last budget cut hurt us the worst, hurt those at the bottom the hardest and did not have any impact on the deficit at all. So the dollar went up, Indiana hurts badly now and Reagan thinks the solution is to kick us again.

Senator, you are sitting in Tippecanoe County, the County that was always Republican, but now has all Democratic State Legislators and Mayors because the Republicans forgot to listen. We are but a tip of the iceberg unless you, Lugar and Meyers, go back to Washington remembering from whence you come; you may see the tide change on our national vote. We want solutions, not band aids put on this cancer called deficit. It is obvious to we Hoosiers Reagan has given up the fight to end government waste, and now thinks the unorganized poor - farmers - and small business is where to put the burden. We expect you to go back remembering you are first a Hoosier, and then a Republican.

While the Grace Commissions Report may have been over simplistic, it did show the largest problem with the deficit is nothing more than unbelievable non-management. I won't call it mis-management because that implies management even existed , it does not!

Peter Grace performed a herculean task with his Committee of Volunteers and Washington has done everything to stonewall, hush up and make snide remarks about the Report. We expected more positive results from Reagan, from you, Senator Lugar and Representative Meyers. Your constituents want you to stand up and demand changes in management, procurement and most of all the military and bureaucracy throughout Washington. Use the Grace Report as a textbook on how to start.

While most of us favor a freeze over that ridiculous budget put out by Reagan, it still is not enough. We want Cap the knife back, what happened to the guy that did a good job for Nixon at the Office of Budget and Management and Health Education and Welfare? Why this 180 degree turn around under Reagan? Defense has more fat and waste for his knife than Hew did.

A freeze is like asking us, would you rather have your right knee broke or your left knee? We want neither. We resent the President and Weinberger playing games with us. Your Hoosier constituents in Tippecanoe can readily see through this ploy of starting high so you can still wind up high and the customer, us the taxpayer, think we have gotten a fair shake. A loud emphatic **NO!NO!NO!** From Tippecanoe County small business.

A freeze is where we start, then we work down from there. That and nothing else will satisfy your constituents from this area Senator.

Let's look at the deficit cutting from where we want to start.

Cutting defense $50 billion Fiscal in 1986 from their estimate would not stop a one gun-plane, tank, or ship if Hoosier Small Business was running defense. But alot of do nothing bureaucrats would walk, a procurement office with modern computers cross checking the services would eliminate over priced stock piling and one service selling at 1/10th purchase price what another service is buying at an even more inflated price.

Hoosiers wouldn't have weapons so sophisticated you needed a degree in Computer Science to make them operate, if it would at all. Why create something that your every day soldier cannot operate? A High School grad today does not measure up to the GI's that fought in Korea and Viet Nam. Why build something they cannot operate it even if it would work, which it won't. A tank that requires stopping and change the filters every hour or two in dusty conditions, aiming systems that fail when temperature is too cold or too hot. Come on now. Those farmers the high dollars are bankrupting wouldn't buy that junk one time.

And let just one General or supplier be found putting something under the table. Prison is the answer. Remember from whence you come Senator, Huntington Herald Press; I was in there in January, I didn't see any $600 toilet seats. Were there any when you were there? Something must be done now, February 1985. Let the Defense Department do what the rest of the nation did, get rid of the deadwood, cut costs everywhere, cut benefits, make do with present equipment.

At the risk of sounding unpatriotic, which I am not, I sense no one has the guts nor the power to throttle Cap and the Generals. As a history buff, I remember Hirohito could not stop Tojo, Argentina could not, still can't stop the military, and on and on.

This has to be checked now and $50 billion with the stipulation they must still perform the same will be but a start.

Social services to the poor cannot be cut again Senator, the problem is management and cutting the dollar amount will not stop bureaucratic boondoggles, double dipping, double triple overlaps to a few, it will only increase the number of super poor.

Small business is in the community, has seen the very poor cut to the bone last time, while fuel costs went up. They did not get full employment, they were the ones that took the big pay cuts. It is not their fault the Congress does not have the willingness to go after the real problem in social services, it's management, or rather lack of.

In business we have a saying, "Don't try to solve management problems by making more rules, when the real problem is you don't use the ones you have". This is especially true of our social services.

One more cut without curing the management problem and you will see poverty in a large scale. You will hurt every retailer, every community, church, tax system in this state.

These people are just barely getting by now, and thanks to the huge deficit they will remain unemployable at any level close to helping them get out of poverty. Because they must be trained then jobs made for them before they can go back to work. Work fare was the best hope they had. Why cut it?

While GM, GE and the rest of the Fortune 500 can avoid seeing these people on a day to day basis, we small business people see them every day, talk to them and know that our Community will be forced to take up the slack while Cap Weinberger's boys pay outrageous prices for toys that don't work and if they did, don't have the troops to use them because we cut education.

Senator, we in small business have been proud to dig this great country out, but we know the deficit is killing your Hoosier homeland in it's 3 major industries. Agriculture, auto and steel. Our entire recovery in the economy is from foreign dollars here because of the deficit.

That farmer isn't in the shape he's in because of bad management, he was trying to grow to be more efficient. But the high dollar dried up what market Jimmy Carter didn't cut off. If the farmer is to blame, I'm afraid many of us in small business will soon join him for we have tried to grow with borrowed dollars. We depend on a free market and the high dollar caused by the deficit tied with Reagans budget will kill a good share of our customer base buying power.

Let's start with the freeze then cut defense $50 billion on this budget.

Thank you,
R. L. Grauel
E.V.P. Mr. STVe's Rentals, Inc.

February 7, 1985

Greater Lafayette Chamber of Commerce
1985 Federal Task Force
Lafayette, Indiana

Position Paper: Federal Budget Deficits

We believe that the United States Congress has an absolute responsibility to take action in order to reduce the federal deficit. We don't realistically expect a zero deficit in one or two years. But rather than provide a band-aid approach, the Federal Task Force of the GLCC would like to list the following concerns and recommendations:

1) Reduce or eliminate the inflating indexing of non-means-tested entitlement programs. ie: Social Security, etc.

2) Contain health-care costs by restructuring Medicare.

3) Increase the "normal" retirement age for any newly hired government employee, be it civilian or military. Also bring fringe benefits, such as vacations, paid holidays, etc., as well as the retirement pay of federal employees - military or civilian - into line with the private sector.

4) Cut real growth in defense spending to a steady and more sustainable level.

5) Bring new hires of state and federal employees into the social security system and advance the normal retirement age for social security recipients one month per year until the age reaches 70.

6) Change the current Congressional budget process to allow the President line-item veto power, only until a balanced budget is reached. Maintainance of a balanced budget would preclude the extension of the aforementioned veto power.

7) Seriously review and implement feasible recommendations of the Grace Commission.

8) If after following these recommendations, (or others similar to them) it appears a tax increase is necessary, consider a value added or consumption tax. We do not support increases in corporate or individual income taxes.

Prior to our planned visit to Washington, D.C. on April 2nd and 3rd, 1985, we would appreciate your responses to the following questions:

1) What is your position on any of the above referenced recommendations?

2) Do you have a specific position on other recommendations which would effectively reduce the current and forecasted federal deficit?

3) Including the eight recommendations above or others you may recommend, what is the estimated amount which could be derived in deficit reduction?

4) What are your proposals to alleviate any difference?

We realize the enormous difficulty in addressing what we believe to be our Nation's number one problem. We are very serious in our purpose and hope that you will respect our concern with frank and open responses and discussion. Thank you.

Submitted by:

David Howarth, Chairman
Allan Bir
James Carney
Roger Branigin
Daniel Kendrick

Testimony before the Senate Budget Committee Field
Hearing - Richmond, Indiana, February 13, 1985
By William H. King, Chairman of the Board,
The Second National Bank of Richmond, Indiana

Senator Quayle, I am happy to respond to your request for testimony on our views on the direction of federal budgeting policy. I will try to contain my thoughts to those items which relate to those matters which are more relative to my expertise, particularly in the area of financial matters.

I have just returned from Washington, D.C. and a meeting of the American Bankers Association Leadership Council where the importance of dealing with the deficit was reported in great detail by the Chairman of the Federal Reserve, Paul Volker, and Senate Majority Leader, Senator Robert Dole. The result of that meeting resulted in a consensus statement of the Leadership Council which states --

> STATEMENT REGARDING FEDERAL DEFICITS
>
> "Large-scale budget deficit reduction is crucial and urgent. Continuing deficits in the $200-billion range are unsustainable and inevitably -- sooner rather than later -- harm all Americans.
>
> ABA supports the concept of a balanced budget amendment, line-item veto and other similar legislative proposals designed to achieve fiscal responsibility in the federal budget process.
>
> Further, ABA will work at the grassroots level to build the political support necessary to assure that elected officials will have the courage to take the tough steps needed to chop back federal deficits.
>
> Additionally, ABA will support a meaningful deficit reduction program even though specific spending cuts might impact the banking industry.

It is obvious that the banking industry senses a very real national problem and is prepared to take a major role in effecting deficit reduction. I am sure our local financial institutions will reflect the same attitude.

All signs indicate that the economy continues to be poised for a sustained period of recovery and growth, an opportunity purchased through discipline and sacrifices over the last five years.

That opportunity, however, is endangered by excessive levels of government spending, the resulting massive federal budget deficit of $200 plus billion this year and the potential for similar huge deficits in the coming years. Such deficits will continue to put pressure on interest rates, driving up the dollar and adversely affecting our export position.

An economic recovery is dependent upon credit for consumer and business purchases. Credit is subject to the same rules of supply and demand as other commodities. The greater the demand, the higher the price for any given supply.

Government demand for credit to finance current and projected deficits would raise interest rates beyond the level that most private and business borrowers would be willing and able to pay. The government, therefore, must reduce its deficit significantly if the recovery is to proceed.

Excessive levels of government spending appropriate real resources that are needed for private sector investment growth. The growth of spending must be curtailed if recovery is to proceed.

Deficits can be reduced by raising taxes or by cutting expenditures. Taxation affects more than the balance sheet of a government. Taxes may have a negative effect on the long run health of the economy by decreasing incentives to save and invest.

Furthermore, taxes may fail to reduce the deficit by shifting the political focus away from the need to reduce expenditures.

We believe that expenditure cuts should be used to reduce budget deficits and to promote stable economic growth. All sectors of expenditures should be candidates for reduction.

Since 1961, the federal government has experienced 22 deficits and just one surplus in its budget.

As a result, it is more than $1.5 trillion in debt. Furthermore--if things don't change--it will be adding about $200 billion to that debt year after year for the forseeable future. At that rate, the total debt would double in just seven years.

If you divided $1.5 trillion among every man, woman and child in the U. S., each individual would receive over $6,000. That is $24,000 for the traditional family of four.

In 1982 prices, $1.5 trillion would buy more than 24 million new homes and almost 240 million new automobiles.

Furthermore, it would take nearly 90 cents out of every dollar on deposit in domestic offices of America's banks to pay that debt off.

The numbers are frightening--but the speed at which the government has racked up this debt is even more frightening.

In 1970, the entire federal budget was $200 billion and the government had a deficit of $2.8 billion. In other words our current deficit just about equals all the money spent by the government just 13 short years ago.

Government deficits affect our everyday lives--they help determine how many Americans are working, how much the value of our dollar is eroded by inflation, and how difficult it is for businesses and consumers to get credit.

How do they do this?

These deficits must somehow be financed. To do this the government can borrow money or it can simply increase the amount of dollars in circulation.

If it borrows, it will absorb new savings needed for the private investment necessary to keep our economy moving and our standard of living rising: such as investment for plant and equipment, research, technology and consumer goods.

Traditionally, the federal government has used about one-quarter of our national savings pool.

If deficits continue at their current high level, this figure will be closer to one-half to two-thirds of that pool -- year after year.

The obvious result of this course is that interest rates will be pushed higher and higher, since there will be greater competition for the same amount of funds. Think about that the next time you or someone you know wants to purchase a car or a home.

As an alternative to borrowing, the federal government may decide to finance its deficit by creating more money. Then we will suffer from inflation. In the classic economic definition, we will have more dollars chasing the same amount of goods.

When inflation is on the rise, no one has any incentive to save and invest. Industry becomes starved for capital, savers watch their nest eggs disappear and recession returns to the horizon. In addition, interest rates rise.

Whichever course the government takes to finance its deficit -- borrowing, creating money or a mix of the two -- interest rates rise, bringing higher unemployment in their wake.

Fortunately, since we live in a democracy we can deal with the deficits, but it is going to take a large degree of unselfish discipline.

When attempts are made to delete an item from the government budget -- be it a dam or a highway, a military base or a new type of tank -- the special interests cry out in wounded anguish.

But the funny thing is, you and I make up the special interests. Take a minute to think about whether you receive some sort of government benefit.

-- Are you a farmer earning thousands of dollars for not planting a crop?

-- Are you a small businessman taking advantage of government loans?

-- Do you have a child in college who receives a government subsidized loan?

The list goes on and on -- and that is the problem.

Democracies are vulnerable to deficit spending because it is far more pleasant to raise spending than to reduce it.

Elected officials know that Santa Clauses get re-elected and Scrooges get rejected.

In Scrooge's day, individuals who could not pay their debts were thrown into debtors' prison. Our accumulated deficits are slowly, but surely, incarcerating our entire population -- and our children for years to come -- in what soon may become an inescapable debtors' prison.

The walls of this prison are not made of brick, concrete and steel. Instead, they are composed of high interest rates, inflation, unemployment and sluggish investment.

Our key to escape may be found by reducing these deficits through discipline in the spending process.

However, that key will not work until each and every one of us becomes willing to sacrifice, to forego something the government has provided -- whether it is an increase in a benefit check, a tax loophole or whatever.

For that key to work we must start to turn it around now, before we are locked into a debtors' prison of our own making forever.

I would submit the following recommendations:

1. Policies advocated should emphasize spending growth reductions in all areas, including defense and entitlements to the greatest extent possible.

2. Tax increases, if they are needed as part of a political compromise, should be consumption oriented not detrimental to capital formation and economic expansion.

3. We should be against the enactment of any tax increases that are part of a political compromise until promised expenditure growth reductions have been signed into law.

4. Longer term institutional reforms which impose external discipline on spending and borrowing should also be advocated. These include a constitutional amendment which requires a balanced budget and imposes restrictions on the amount of taxation relative to national income, a line item veto, and budgetary restrictions on federal credit programs.

These recommendations are made with the knowledge and concern that some programs scheduled for cuts will impact each and everyone of us. The time has come, however, to think of future generations of Americans and the preservation of our universal standard of living. There are places to cut virtually every program and ways to increase taxes which will not be devastating. The pursuit of tax evaders and the underground economy in this country could help substantially.

Perhaps the most controversial of proposed cuts is in the defense budget. In my opinion no segment should be totally ignored and the defense budget is perhaps the best place to focus. No one wants a weak America but the waste in defense can be documented and should receive priority review.

There is no doubt the deficit can be trimmed and there is justification for tax reform. It will take the cooperation and support of all of us to succeed. We must put aside our personal pet projects and unite to achieve a goal for the common good.

ATTACK THE DEFICIT PROBLEM!

TESTIMONY OF MAYOR SONYA L. MARGERUM, CITY OF WEST LAFAYETTE, INDIANA, to be given before Senator DAN QUAYLE, February 15, 1985, in LAFAYETTE, Indiana.

Senator Quayle:
As Mayor of the City of West Lafayette, I am deeply concerned about the impact that proposed Federal cuts will have on our basic city services, economic development, housing and social service programs.

As a share of total government spending, Federal aid to cities and towns, has declined from 16.9 % to 11.6% in the last five years. Federal wastewater construction funds are down 45% or 3.6 billion dollars since 1980. General Revenue Sharing has been cut by 1.7 billion dollars a year. Urban development grants and housing assistance programs have been cut in half. A national study prepared for the Joint Economic Committee of Congress, estimates that 1.157 trillion dollars will be needed by the year 2000 to rehabilitate the nation's existing infrastructures and provide for new facilities that growth will require. The study also points our that current finances are 443 billion short of the projected needs for the next six years. Now the White House is asking Congress to cut another 30 billion dollars from these and other Federally assisted public works and development programs, not including highway spending.

Cities and towns are the basic units of government that use local tax funds to provide basic services. Local units of government also have to spread these same funds as far as possible to attract commercial development, economic development and the job market that follows such development. Without the help that additional Federal funds provide to attract commerce, our economic well-being will decline. The Federal government must continue to provide some funding.

West Lafayette and all cities and towns in Indiana have been severely limited by the State in raising necessary tax revenue and have thus become even more dependent upon Federal Revenue Sharing and Community Development Block Grant Funds.

Senator Quayle, we are willing to do our share to reduce Federal spending, but enough is enough. The City of West Lafayette spent 4% less in comparable dollars in 1983 than in 1978. We did this at a time when the State Legislature was passing legislation which required municipalities to pay for the new areas of responsibility laid on the State by the Federal government, while allowing no additional funding for cities and towns to pay for these additional burdens. The proposed cuts would not only wipe out any investments our city could make in the replacement of old equipment and the ability to meet growth needs, but would cut deeply into our current operating budget.

I would like to use the results of the two Federal programs that affect West Lafayette directly to illustrate my points.

Federal Revenue Sharing has been, since the Nixon Administration established it in 1973, the most successful and efficiently administered program of Federal spending. This fact has been noted by almost everyone having any experience with the program. The City of West Lafayette uses Revenue Sharing money, approximately $150,000 a year, to pay for street lighting and the rental of water hydrants. Loss of this Federal Revenue Sharing money would mean that we would have to reduce our current budget of $3,944,132 by $150,000 in order to light streets and have water available in the hydrants.

The Community Development Block Grant program has meant an additional source of community funds at the rate of about $300,000 a year for the last 10 years. Spending priorities have been determined at the local level by local officials and citizens.

The majority of the funds and activities have been concentrated in the older and more transient areas adjacent to the Purdue campus and we consider these expenditures an investment in the economic and social future of our community. Some of the activities funded over the last two years include: Code Enforcement (prevention of urban blight), 25 housing loans, 245 sidewalks and curbs, new sewers, the "Good Neighbor" program, energy conservation, a parking ticket vehicle, traffic signals and funding for area social services.

Loss of these funds would mean, particularly in the case of a vital program like Code Enforcement, that further inroads would have to be made in our current operating budget to keep the program operating. We would have to make no-win decisions pitting street surfacing, new sewers, additional curbs and sidewalks and aid to the social services against each other for support.

The record of progress and success in these programs is clear. When the Code Enforcement program was created, the quality and amount of rental housing was raised and sub-standard housing declined. When public improvements such as the resurfacing of streets and alleys, re-construction of sidewalks and curbs and the planting of trees took place, private investment increased. When the neighborhood groups, public service agencies and economic development projects were funded, neighborhoods and people were strengthened and job opportunities increased. When the Community Development funds and private investments increased, the tax base also increased and the deterioration of the older and more transient neighborhoods around the campus of Purdue was minimized.

The Community Development Block Grant and Federal Revenue Sharing investment has paid off for the City of West Lafayette, the State of Indiana and the United States. Any decrease or the discontinuation of either of these programs would have serious financial and social effects on our city. Further physical improvements, which have made such a difference in our ability to attract investment capital, provide jobs and basic city services to our citizens could be elimintated. This would leave us open to the slow decline in the quality of life that accompanies economic growth without the municipality's comparable ability to provide support services.

For our economic health, we need these Federal funds. The Federal government needs our economic health for the health of the nation. I hope that you can help us get the point across, Senator Quayle, and thank you for the opportunity to testify on behalf of the City of West Lafayette, Indiana.

FEB 14 1985

Northeast Regional Office

TESTIMONY ON THE FEDERAL BUDGET
PREPARED FOR SENATE BUDGET COMMITTEE FIELD HEARINGS
IN FORT WAYNE, INDIANA ON FEBRUARY 14, 1985.
THIS TESTIMONY IS PROVIDED AT THE REQUEST OF
THE HONORABLE DAN QUAYLE, U.S. SENATOR, STATE OF INDIANA
BY PAUL L. MAST, PRESIDENT AND GENERAL MANAGER OF
ITT AEROSPACE/OPTICAL DIVISION, FORT WAYNE, INDIANA.

****

Senator Quayle, I appreciate the opportunity to participate in your program to solicit the views of your constituents concerning the direction of federal budgetary policy.

I will restrict my comments to the segments of federal budgeting, authorization and appropriation as they impact our decision process in fulfilling our role as an equipment supplier, in both prime and subcontractor roles, to several key federal agencies.

The ITT Aerospace/Optical Division in Fort Wayne is a major prime contractor to the Department of Defense and to a lesser extent, to the Department of Transportation (Federal Aviation Administration), the Department of Commerce (National Oceanic and Atmospheric Administration) and the National Aeronautics and Space Administration (NASA). Additionally, we maintain a substantial export business with programs funded partially by U. S. government credits approved through the Foreign Military Sales (FMS) process.

Many government contractors are continually at odds with the federal budgeting, authorization and appropriation process and have both individually and as a group made their positions known throughout the Executive and Legislative branches of the government. In my opinion, some of the criticism is justified; some of the criticism is perhaps not fully justified.

Let me now highlight the difficulties and concerns we encounter in fulfilling our management obligations to our corporation, to our division in Fort Wayne, to our employees and to our community.

I believe my feelings are shared by most of my fellow citizens that the current and projected federal budget deficits are highly undesirable. We must work aggressively to eliminate future deficits and not continue to mortgage future generations. Opportunities for significant cost cutting and waste elimination exist and need congressional attention. Many such opportunities have been delineated in the Private Sector Survey on Cost Control Report.

Let me now turn to another aspect of the federal budgeting process which is of great concern to me and to my company. Twice during the last three years, Congress has failed to pass the Appropriations Bill for the Department of Defense. This seriously impacts our own planning cycle since we (and our DOD programs under contract) must then operate under a continuing resolution. Program funding restrictions are then often imposed which require restructuring of our internal program planning and execution. Congressional indecision regarding the DOD budget places us at risk in terms of our own investment in capital assets and manpower.

Your own initiative to implement a two-year Defense Authorization cycle would lessen the hold micro-managers have on the total process in that more time would be available for them to review and understand the baseline considerations for the submitted budget requests. I strongly encourage you to continue pursuing the implementation of the two-year cycle.

As the prime contractor for the U. S. Army's SINCGARS (Single Channel Ground and Airborne Radio System), we cannot tolerate wide departures from the government's annual funding profile and still achieve the critical program milestones leading to planned deployment of this critically needed system.

SINCGARS is recognized through the Executive and Legislative branches of government as a critical and essential program. One only has to review the Soviet threat to our current C^3 assets to realize that programs such as SINCGARS are a vital segment of our national commitment to sustain a viable deterrent force structure.

The SINCGARS sytem provides the primary communication between soldiers in conflict and combat support in tanks and helicopters. It is a rugged and reliable system that provides for encryption security and anti-jamming capabilities. ITT has made a strong commitment to this program. Over 200 jobs have already been added in Fort Wayne to perform this contract. Continued substantial employment build-up is anticipated for the next several years. By 1988 we will employ more than 500 area citizens on this program and, perhaps, an additional 500 on derivative and export business.

In citing our own at-risk conditions on SINCGARS and other DOD programs, we should not overlook the significant and essential role of Fort Wayne, Allen County and Indiana economic development organizations and their financial support that contributed so much to bringing the SINCGARS program to our community. That financial support may also be considered at risk under conditions that funding for SINCGARS is delayed or reduced.

My statements on this general subject would be incomplete without a brief comment on the government's procurement systems and practices. As a government contractor, we have become a full partner in a system which is openly criticized. Reform is needed; how this shall be accomplished in the near term is not easily determined. Defense program acquisition processes are complex, not even fully understood by procurement specialists both within the government and within industry.

Senator, as Chairman of the Task Force on Selected Defense Procurement Matters and a major player in DOD acquisition policymaking, you can now contribute to the restructuring of the acquisition process. As a defense contractor, we believe that certain acquisition policies need to be changed if only to bring all parties (DOD, Congress and industry) into a working partnership that the public will quickly recognize as fulfilling their wishes for an effective and cost-conscious procurement system. I have recently seen some serious attempts to open up the communication channels of government and industry leaders that might be a step in the right direction.

In our important role as a defense contractor, we seek only an improved level of stability in the contracting for and the funding of our many programs. I believe a new stability can be achieved when need is expressed realistically, when program funding profiles are accurately forecast and then funded through timely Congressional action on Authorization and Appropriation bills, and, when our national budget goals and objectives are treated with a sense of urgency. Such stability is critical to our capital investment for cost effectiveness over a long period, quality improvements and responsiveness to government need.

As a final subject, Congress has imposed on government procurement agencies a requirement for a warranty provision in future contracts without planning for reform in many quality and test provisions already imposed and the logistics support considerations of a military system. We at ITT are proud of our fielded equipment reliability record. However, additional contingent liabilities of repairing equipment at a contractor maintenance depot, after the equipment is subjected to utilization in military applications, involve added cost to the contractor that must be reconciled in the government funding process. There needs to be clarification as to what is a realistic warranty and likewise when contractor maintenance service is involved.

Budget problem resolution begins with the recognition that a budget problem exists. That first hurdle has been passed. Now, our challenge is to work together for the best solution in consonance with our national priorities and the public good.

Good morning Senator Quayle, I am Sister M. Martin McEntee; a Sister of St. Joseph and the President of St. Joseph Memorial Hospital in Kokomo, Indiana.

Thank you for this opportunity to speak with you regarding the upcoming debate over the Federal budget and the huge deficits that loom before us.

This morning I'd like to share with you my thoughts and concerns as they relate to:

- Social Security and the deficit
- Medicare policy driven by budget
- Medicare cuts
- PPS rate freeze
- Medicaid

Social Security Issue

It has frequently been an annual ritual for media commentators to suggest that if Congress is going to do something about the nation's awesome debt, it will have to sharply cutback entitlement programs such as Social Security.

This year, that changed somewhat when President Reagan, both during and after the campaign, pointed out that Social Security doesn't contribute to the federal deficit because the program is not funded out of general revenues but through its own separate trust fund and that trust fund is in sound financial condition. Thus, cutbacks in Social Security only serve to strengthen the trust fund; they do not reduce the size of the overall federal deficit.

An examination of the facts indicate the President is correct. The Social Security Amendment of 1983 put the Social Security program on sound financial footings and the program is now accumulating large revenues.

Nevertheless, Senate Republican leadership is suggesting that Social Security must be cut if they are to reach their goal of achieving a $55 billion deficit reduction in FY 1986.

An example of what occurs when Medicare is budget driven is this year's proposal to eliminate the doubling of the indirect teaching adjustment. During the debate over prospective payment, Congress doubled the adjustment and this Administration agreed to it. Without this adjustment, CBO and the Administration projected that teaching hospitals would have borne substantially more of the losses under PPS than non-teaching hospitals. The doubling of the indirect teaching adjustment was a proxy solution to account for things that were happening in teaching hospitals, as a class of hospitals, to cause them to be more costly than non-teaching hospitals. At the time it was speculated that much of these costs were associated with sicker patients, more costly technology, the cost of residents and higher indigent patient loads.

No more is known today about what causes teaching hospitals to be more expensive on average than other hospitals. Yet, because of budget pressures, the Administration is proposing to save $695 million out of the Medicare program in FY 86 and another $6.5 billion in the period FY 86-90 by eliminating the doubling of the teaching adjustment -- without knowing what the actual consequences of their action might be.

We must stop allowing the budget to drive Medicare policy before it does unanticipated, unintended, irreparable harm to the program and the people it serves.

Monies in the Social Security Trust Funds must be invested in US Government Securities. Cutting Social Security benefits without corresponding cuts in FICA taxes, allows the Social Security Trust Fund to invest more money in government securities thus alleviating somewhat the Federal government of the burden of going to the credit markets for debt.

Cuts in Social Security that are proposed for deficit reduction purposes rather than pragmatic purposes could be interpreted by employers and employees who make the FICA contribution as a back door way of financing government programs other than Social Security. Such a perception would mean a diminishing of the trust placed by the public in the administration of the Social Security Trust Funds by Congress and the Administration.

Medicare Policy Drive By Budget

Medicare policy is being driven by budget considerations rather than by the health needs of the elderly. After four years of budget driven Medicare policy decisions, some $21 billion have been taken out of the Medicare program. And the White House is proposing that the program be cut another $20 billion or so over the next three years.

In this regard, I'd like to call your attention to and request your support of a National Commission of Health Policy.

On February 13, the Catholic Health Association recommended that Congress and the Administration establish a National Commission on Health Policy. CHA believes that a coordinated focused evaluation of health care is essential to stop the nation's reliance on short-sighted stop-gap measures that control health care costs without solving the problems that escalate costs.

Medicare Cuts

This morning I must also speak against the Administration's proposed Medicare cuts.

Medicare hospital, skilled nursing, and some home health benefits are financed through the Hospital Insurance Trust Fund to which employers and employees contribute through the FICA payroll tax. Since it is a trust funded program, the President's contention that Social Security doesn't contribute to the deficit applies with equal force to Medicare Part A, which is financed out of the Hospital Insurance Trust Fund. Therefore, if cuts are to be made in Medicare Part A, they should be made only for programatic reasons and not solely for deficit reduction purposes.

Over the last four years, Medicare has borne a disproportionate share of budget cuts and is scheduled to do so again this year.

In the four years since 1981, Medicare has absorbed over $21 billion in cuts. In FY '86 the Administration has proposed an additional $4.2 billion in cuts, with the cumulative value of those cuts between 1985 and 1990 in excess of $42 billion. This is more than the Medicare program should have to bear.

In FY '86 the Medicare beneficiary population will grow by more than 600,000 people. Our nation's hospitals, doctors, and other health care providers cannot continue to provide the level and quality of health care this country has come to expect if Medicare continues to suffer budget cuts of this magnitude.

PPS Rate Freeze

The Administration is proposing, on its own administrative authority, to freeze the Medicare prospective payment rates for FY '86 at FY '85 levels.

The Administration contends that the statute provides the Secretary with sufficient authority to impose a freeze in PPS rates. Such an interpretation may be in keeping with the letter of the law, but it certainly shatters the spirit of the agreement between providers, Congress, and HCFA/HHS when prospective payment was enacted.

As the PPS program was being debated, the clear expectation conveyed was that on an annual basis the Secretary would raise the PPS rates, taking into consideration the increase in input prices to hospitals as measured by the hospital market basket.

Freezing the PPS rates shatters the spirit of this understanding between providers and HCFA/HHS. It also bodes ill for the future of PPS with respect to the kind of cooperation that must exist between providers and the government in order to keep the program going.

Medicaid

Medicaid is a fundamental "safety net" program for nearly 7 million poor people and twice as many disadvantaged adults and elderly who depend on a variety of health care services provided under it.

The President's FY '86 budget proposes a "cap" on federal Medicaid funds. The proposed cap would severely limit federal responsibility for this basic means-tested entitlement program and would make it increasingly difficult for states to provide health care for the poor. The White House's budget indicates that the proposed federal cut would grow from $1 billion in FY 1986 to $6 billion in FY 1990. The Administration estimates total federal "savings" (read -- loss to states) of $16.6 billion from the cap through FY 1990.

According to estimates produced by the National Governors' Association, The Administration's proposal would have a $43 million negative impact on Indiana's Medicaid program in FY '86. That negative impact would grow to $138 million by FY 1990. This would mean a 9.4 percent reduction in federal matching funds for Medicaid in FY '86 and a 21 percent reduction in federal matching funds in FY 1990. Hoosiers served by the Medicaid program cannot afford to absorb cuts of this magnitude.

I believe the disadvantaged elderly and the poor deserve an absolute reprieve from additional cutbacks in the Medicaid program. Therefore, I urge you to oppose any cutbacks in the program this year.

Senator, I 'd like to conclude by saying that for years this country has looked to its hospitals to be instruments of social justice to care for the poor, to subsidize the care of some who couldn't fully pay for their own care, and to subsidize to some extent expensive cases such as open heart surgery with revenues from less expenses cases such as appendictomies

Given the magnitude of past and proposed cuts in Medicare and Medicaid, hospitals will not be able to continue this social justice function if the Federal government in its drive to balance the Federal budget continues to make cuts in the Medicare and Medicaid programs.

Thank you again for this opportunity, Senator. I'd be happy to answer any questions.

TESTIMONY BEFORE SENATOR QUAYLE'S BUDGET FIELD HEARINGS
Lafayette, Indiana - February 15, 1985

Senator Quayle, I am Vernon McMinimy, Director of Commodity Research for the A. E. Staley Manufacturing Company. Today I represent Staley Continental, Inc. Staley Continental, Inc. encompasses two operating companies, A. E. Staley Manufacturing Company and CFS Continental. A. E. Staley Manufacturing Company is primarily a corn refiner. We are operating two corn refining plants in Indiana, both of which are here in Lafayette. These plants will use nearly 50 million bushels of corn this year, equal to one-fifteenth of the corn produced in the state last fall. CFS Continental is the second largest food service company in the United States and provides food services to restaurants throughout Indiana with two food and supplies distribution centers in Indianapolis.

We are appreciative of the opportunity to present our views on the most important matter of the budget as it relates to taxes and expenditures. The budget deficit is a major economic problem facing the country today. This week we have seen the value of the dollar reach new record highs relative to some major trading currencies such as the British pound and French franc. The dollar is the strongest in many years against major world currencies such as the German mark, Swiss franc, and Japanese yen. Much of the strength of the dollar is attributable to level of interest rates in the U.S., which in turn are supported by the level of the federal budget deficit.

The strong dollar has hurt the Staley Company directly in two ways. It has resulted in a substantial reduction in the value of corn gluten feed produced in the corn wet milling process. The strong dollar has resulted in a $50 per ton reduction in the value of corn gluten exported to the European Economic Community over the past year. At present the export value has fallen to the point that the volume of corn gluten feed exported has fallen from 95 percent of the quantity produced to 75 percent. The foreign exchange earned from the exports of corn gluten feed has fallen contributing to the increase in the deficit in our foreign trade account.

The strong dollar, along with the pressure of foreign subsidies has resulted in a weak demand for U.S. produced soybean meal in the world market. Those forces led the Staley Company to close its state-of-the-art soybean processing plant in Decatur, Illinois in December, 1983. Recently, the Staley Company sold its remaining five soybean processing plants located in Indiana, Ohio, Illinois, Iowa and Missouri, partly because the continued strengthening dollar suggested a deepening problem for the competitiveness of U.S. soybean products.

Real progress in lessening the federal budget deficit would allow the demand for saving to moderate, interest rates to decline, the dollar to soften, and the world demand for U.S. products such as corn gluten feed and soybean products to improve.

The Staley Company is also a major user of commercial credit. The corn refining industry is one of the most capital intensive of all industries. Each sale requires an investment of about 1.5 million dollars. In part, because of this, the industry also is a leader in productivity improvements. With new plants costing several hundred million dollars, the cost of money is a significant expense. Operating capital is also expensive. We process over 125 million bushels of corn per year, near 50 million bushels in Indiana. The acquisition of that amount of raw material requires that we utilize a large amount of credit to finance those acquisitions until the products, high fructose corn syrup, corn starches, corn oil, corn gluten feed are sold. The current high interest rates we pay for that credit adds significantly to the cost of operation.

We feel strongly that the Federal Government must aggressively attack the problems of the federal budget deficit and do it in a manner that does not jeopardize the viability of important domestic industries. We must solve the problem without wrecking havoc on American industry. We are concerned that the Administration proposals, if adopted without amendment, could be very injurious to American farmers. The Staley Company depends on the American corn producer. We cannot afford to have the supplies he produces be significantly disrupted by a sudden change in the economic conditions he faces; thus, we would urge that any adjustment in the support provided to him be accomplished over a period of time that will come from a more competitive dollar and the creation of a more competitive position in the world market.

The farmer producing corn and soybeans is not only facing a deterioration of their foreign markets as a result of the strong dollar, but in addition is the victim of foreign governments intervention. The policies of the European Communities Common Agricultural policy has virtually eliminated imported corn as a feed, while it has generated surpluses of wheat and barley that are exported in competition with U.S. corn. Brazil has promoted the production of soybeans and the export of its products at the expense of U.S. soybeans and their products.

American agriculture is not only suffering the effects of the huge federal deficit here at home, but the effects of foreign government policies abroad. The corn processing industry is also gravely in jeopardy if the current U.S. sugar program is not continued. The U.S. sugar program stands as a bulwark against the devastation that would occur if the industry had to compete against the world's dumping ground market for sugar where prices are currently around four cents per pound.

High fructose corn sweetener is the world's lowest cost sweetener. At $3.00 per bushel corn, HFCS costs slightly over 14¢ per pound in the United States compared to the lowest cost sugar produced anywhere in the world at slightly more than 15¢ per pound, and world average cost of around 25¢ per pound.

This cost advantage is a result of reasonably priced corn raw material and the application of high technology which has resulted in the expansion of a domestic market for corn sweetener nearly 500,000,000 bushels for sweeteners alone and nearly 800,000,000 bushels for all corn refining purposes.

Yet, this high technology industry is threatened by the prospect of unrestricted imports of foreign governments' subsidized sugar such as that from the EEC, Brazil and others into the United States. The present sugar program mandated by Congress in the 1981 Farm Bill prevents such devastation of our more efficient production and it is urgent that Congress re-enact similar legislation again in 1985. At the same time, it is imperative that we bring every possible force to bear against the Europeans and others in the world sugar market to stop their practices of subsidies and other interventions which unduly depress world sugar prices and distort world markets. Current world price for sugar is four cents per pound or roughly one-fourth of the cost of the most efficient producer in the world and one-sixth of the cost of the typical world producer. World price is driven by universal governmental subsidies and not by free economic forces.

The U.S. sugar program is the only mechanism standing between U.S. produced sweeteners and the depressed subsidized world market. Should our borders be opened to unrestricted imports of this foreign government-subsidized sugar, irregardless of the cost of that product, no U.S. producers would be able to compete because we would be competing against government subsidy and not true economic forces.

The U.S. sugar program works by means of a nonrecourse loan at 18¢ per pound raw for the 1985 crop with the further congressional mandate that the program not entail expense to the U.S. Treasury. The Secretary of Agriculture administers the program by regulating imports so as to maintain a market stabilization price that is slightly higher than the proceeds the sugar producer would realize if he were to default on the loan. In other words, he can always make a slightly more profitable sale into the commercial market than by forfeiting his sugar to the government.

The Secretary manages the MSP price by regulating the quantity of sugar imported, either by means of a system of fee and duty or by a quota system. Since there is a 50% ad valorem fee limitation, as the world price of sugar drops below approximately 10¢, the fee and duty system becomes ineffectual as a border barrier and the Secretary reverts then to the quota system which is now in effect.

The present quota for the crop year beginning October 1, 1984 is 2.55 million short tons of sugar. Last year, the quota was 2.952 million tons and the year previous 2.8 million tons.

There is a proposal by Savannah Foods under consideration by the Cabinet Council, which would enlarge the quota of foreign sugar so long as it was used only to produce invert sugar and displace high fructose corn sweetener. Corn growers have strongly protested Cabinet recommendation of this action to the President who could effect it simply by a Presidential Proclamation. In corn refiners and corn growers view, such a loophole would simply sacrifice the U.S. corn sweetener market of some 500 million bushels of corn to foreign government subsidized sugar.

Opponents of the U.S. sugar program point out that, while it does not entail a government expense, it does result in higher prices to the U.S. consumer. Certainly, in the short term, this argument has some merit, but, in the longer term, if the U.S. loses its entire sweetener industry and is totally dependent on foreign suppliers, it seems likely that those suppliers would be more apt to increase the price than to continue to subsidize the U.S. consumer.

Other opponents argue that the loan level is set too high. In fact, the loan is set at about the average cost of production in the United States which effectively prevents the expansion of uneconomic production as attested to by the decline of beet sugar production in the United States and the essential static level of production of cane.

Re-enactment of a sugar program in the next farm bill which will effectively limit imports of foreign government subsidized sugar is imperative to the continuation of the corn sweetener, beet and cane sugar industries in the United States, not because these industries are outmoded and inefficient, but, quite the contrary, to ensure that these efficient industries are not made to compete against foreign government subsidies. Only when we can persuade foreign governments to stop subsidizing their industries should we allow our border restraints to be lifted because only then will we be competing in a game with the same rules. In that game, U.S. sweeteners will do quite well. Given this set of constraints, we have chosen the most viable policy options in the current sugar program. Namely, we have chosen to maintain reasonable producer income aimed at the average cost of production which has reduced production and number of producers of U.S. sugar. The program has also produced a price for sugar to the user equivalent to the U.S. world average cost of production while entailing no federal budget expense.

The federal budget deficit must be reduced. It must be reduced in a manner that maintains the viability and competitiveness of American agriculture and agribusiness. Thank you.

NAHRO

A NAHRO POSITION

Financing Operations Of Federally Assisted Public Housing

Statement of the Issue

The Administration is seeking a reduced and inadequate level of funding for operations of public housing agencies. They are also proposing revisions to the Performance Funding System (PFS) which represent a piecemeal approach to improving the system while at the same time creating a financial hardship for some public housing agencies.

The NAHRO Position

NAHRO believes that the PFS is with an FY appropriation of $______________ the best approach to funding public housing operations, however there are some changes which can be made to make the PFS more effective and efficient. The major changes, which represent a balanced and total approach to the PFS, are outlined below:

1. A formal expense adjustment process should be established which will provide for (1) adjustments to PFS base year expense levels, (2) annual adjustment for costs and factors beyond the control of the PHA and (3) reconciliation of differences between estimated inflation factors (HUD supplied) and actual inflation changes.

2. Utilize occupancy rates as an incentive to encourage good management by fully funding a 95% occupancy rate and sharing income generated as a result of a higher occupancy rate. An equitable transition program should be developed for those with a major vacancy problem at the present time.

3. "Other income" should be eliminated from the calculation of operating subsidies to encourage PHAs to be better managers and permit them to benefit from such additional income.

4. PHAs should adopt a performance standards system which can be the basis for reduced oversight and regulation by HUD for those who achieve performance goals.

5. A minimum operating reserve (equal to 20% of annual operating budget) should be established with the ability of PHAs to receive funding adjustments to maintain this level.

Current Program Status

The Performance Funding System (PFS) utilizes federal appropriations to fund the gap between the cost of PHA operations and income received (mostly from tenants) has been funded at 100% during FY 82, 83 and 84. While there were excess funds each year, HUD did not, except in FY82, utilize the provision of the PFS to provide payments to PHAs for costs beyond their control. This provision was included to recognize that certain unanticipated and uncontrollable costs do occur and should be funded by the PFS under prescribed circumstances.

The funding level of the last three years has permitted PHAs to stop waging a daily battle against the inadequate funding for operations. However, during 1984 and proposed for 1985, HUD has attempted to reduce funding for operations by making administrative and regulatory changes;

Income Recapture - Through retroactive application of new rules, HUD is attempting to recapture PFS subsidy paid as a result of low income estimates developed on the basis of then acceptable budget practices. These funds have since been utilized for legitimate public housing purposes.

Vacancy Rule - HUD is proposing to reduce, and then eliminate, funding for vacant public housing units. While the goal of minimizing vacancies is shared by PHAs and HUD, immediate implementation of such a rule and reduction of funding is not the most sensible approach to the vacancy problem. This is particularly true in view of the devastating financial impact on those PHAs with a significant number of vacancies which cannot be reoccupied overnight.

Modification to the Performance Funding System - HUD has proposed some additional changes to the PFS. These changes which call for end of the year fiscal adjustments are one sided in that they call for adjustments only when it benefits the federal government. As designed, these changes penalize PHAs and create disincentives for good management.

When fully funded the PFS adequately covers the cost of operations for most PHAs. There is general support for the system among PHAs. There is also agreement that some changes can be made to improve the system and the overall operation of PHAs. However these changes need to be designed to encourage good management and remove disincentives currently in the system. The general problem with the HUD proposals are that they are one sided in favor of the government and tend to increase the number of disincentives in the system. In addition, their current budget request assumes early implementation of the changes without a reasonable transition period. PHAs will not be able to absorb the fiscal impact without some disruption in their service to tenants.

Background

From 1937 through 1961, no operating assistance was provided for public housing; the combination of below-market interest rates on tax-exempt bonds and reduced local tax contributions made it possible to achieve low rents. Beginning in 1962, a $10 per month assistance allocation for elderly was made available to help meet rising operating costs; this was later extended to large and very low-income families. In 1969 through 1971, Congress adopted three amendments (Brooke Amendments) that substantially reduced rent revenues from tenants by placing a 25 percent ceiling (revised to 30% in 1981) on rent-to-income contributions, by liberalizing deductions from income before rent was calculated, and by changing the rents to be paid by families receiving public assistance from a specific rent allocation negotiated between welfare agency and the PHA to a minimum rent based on a consolidated flat welfare grant. The impact of these amendments was to substantially increase the requirements for federal operating assistance. In 1975, the performance funding system was adopted and is still in effect. The basic elements of this system are a funding "formula" based on characteristics of the individual PHA, and an inflation factor. The costs of utilities and audits are not included in the formula and are funded separately. The expectation is that each PHA will receive its full calculated allotment under the formula.

TESTIMONY SUBMITTED TO THE UNITED STATES SENATE BUDGET COMMITTEE

February 11, 1985

George E. Pillow
Executive Director
Indiana State Housing Board
25 West Georgia Street
Indianapolis, Indiana 46225

The Indiana State Housing Board (ISHB) would like to express our appreciation at having the opportunity to submit testimony to the United States Senate Budget Committee. We would like to state our knowledge of the need for housing assistance in Indiana and to to offer a recommendation for the funding level for Section 8 Existing Certificates. Our purpose in this testimony is threefold: (1) to acquaint you with the programs currently administered by the Indiana State Housing Board in relation to the housing needs of Indiana, (2) to describe the reductions which have already been absorbed by the U. S. Department of Housing and Urban Development's (HUD) housing programs, and (3) to inform the distinguished Committee of the level of funding supported by the Indiana State Housing Board.

ASSISTED HOUSING IN INDIANA

In recognizing the severity of the shortage of decent and affordable rental housing, Indiana has been in the national mainstream. In the same year that Congress passed the landmark Housing Act of 1937, the Indiana General Assembly enacted the Indiana Housing Authorities Act. At the time, Congress declared it to be "the policy of the United States to promote the general welfare of the nation, to assist the states and their political subdivisions to remedy the unsafe and unsanitary housing conditions and the acute shortage of decent, safe and sanitary dwellings for families of low income." [1]

In 1976, the Governor of Indiana charged the State Housing Board with the task of administering the new federal leased housing initiative known as Section 8 Existing. Today, the Indiana State Housing Board administers four programs to bring housing assistance to eligible Hoosier families: (1) Section 8 Existing, (2) Section 8 Moderate Rehabilitation, (3) Property Disposition and (4) Rental Rehabilitation.

---

[1] *as quoted from "Housing Needs in the United States" -- a working paper of the National Housing Conference (1984).*

Section 8 Existing

The strength of Indiana's Section 8 Existing Program lies in the fact that it recognizes the competitive forces of the private market while giving to the State Housing Board the ability to enter that market and provide low-income families with necessary financial assistance for rent and utilities. With funds from HUD, ISHB makes housing assistance payments to provide the difference between what a family can pay toward rent and the actual cost of the rent. Each property must pass inspection before an eligible family may move into the unit. As intended by law under Section 8 Existing, housing assistance is linked to the family rather than to the housing unit. In this manner, the community, the family, and the property owner all benefit. The community itself benefits because the existing housing stock is utilized and upgraded. The eligible family receives needed rental assistance while retaining the opportunity to choose their place of residence. The owner of rental property is guaranteed the ISHB portion of rent and a degree of protection against damages.

To date HUD has allocated 3,672 units to the State Housing Board. ISHB uses these allocations all across Indiana to assist eligible residents in obtaining decent, safe and sanitary housing.

Moderate Rehabilitation

The Section 8 Moderate Rehabilitation Program utilizes rental subsidies for the purpose of stimulating rehabilitation of substandard units. ISHB works with private owners to bring their buildings up to HUD's Housing Quality Standards. After repairs are made and certified, the Housing Board enters into a fifteen (15) year contract which provides for repayment of the repair costs as well as occupancy by eligible Section 8 participants. Therefore, in contrast to the Section 8 Existing Program, the housing assistance is linked to the rehabilitated unit -- not to *the family. The Housing Assistance Payments contract provides both tenant subsidy payments and debt-service repayment for the owner.*

There are currently 571 Moderate Rehabilitation units administered by ISHB and widely distributed throughout the State.

Property Disposition

Under this program, properties that have come into HUD ownership through default are sold by HUD to new private owners with the inducement of Section 8 subsidies for existing residents. ISHB is responsible for those subsidies and briefing residents about the Section 8 Program.

Residents go through the standard intake procedures and must remain in the project complex during the first year. At the end of the year when recertification procedures begin, residents have the option of moving to another acceptable rental unit, while continuing to receive assistance from the State Housing Board.

The ISHB Property Disposition Program contains 594 units, all located within Marion County.

Rental Rehabilitation

The newest program of the State Housing Board is the federal Rental Rehabilitation Grant Program. Funded for the first time in Fiscal Year 1984 appropriations, Indiana has been awarded funds in 1984 and 1985 estimated to assist 410 housing units.

ISHB administers the program to eligible units of local government in Indiana. The program provides funding for the rehabilitation of rental property, while ensuring that low-income renters receive the benefits of the Rental Rehabilitation Program. ISHB accepts project applications from local governments and signs grantee agreements with the communities that evidence the best ability to implement feasible projects, within the context of a sound neighborhood preservation strategy. Indiana's Rental Rehabilitation Program focuses on communities with neighborhoods whose general character serves the low-income renter and where local government is willing to or has made an attempt to preserve and enhance the neighborhood.

Based on guidelines, the methods of financing are made by the local community, which is also responsible for project monitoring. ISHB staff provide technical assistance as needed during this period.

After projects are completed and approved, ISHB provides Section 8 assistance for eligible residents living in the rehabilitated property.

ISHB Unit Allocations	
Section 8 Existing	3,672
Moderate Rehabilitation	571
Property Disposition	594
Rental Rehabilitation	410
Total	5,247

The Need in Indiana

As can be seen in the above chart, the State Housing Board has the capacity to help 5,247 Hoosier families afford decent, sanitary housing. Shelter is a basic necessity of life, and Section 8 housing assistance has a definite, positive impact on the lives of many families. It is making a difference in the lives of families such as the Johnsons and the Bakers. (Names have been changed to protect the identities of the families.) Sharon Johnson, 40, lives in an apartment complex in northern Indiana with her twelve year old son Since her ex-husband left them, Sharon's only source of income has been AFDC which totals $165. per month. She currently pays $38.00 per month for rent and utilities. She is very bright and attends secretarial training classes in the daytime while her son is at school. After her secretarial training is finished, hopefully, Sharon will be able to find a job which will enable her to afford adequate housing without Section 8 assistance.

Michael Baker and his family live in a three-bedroom house in rural Indiana. Michael works full-time at a nearby apple orchard where, in the autumn, he is paid $25.00 per day for picking 60 bushels of apples. This year his total income was $4,980.00. Before coming on the program, Michael could not support his family on such a low income and found it necessary to move out of the household so his wife would be eligible for AFDC and food stamps.

Stories like these are very encouraging. However, for each family receiving assistance, there are families who must be turned away due to the limited amount of resources. The combined waiting lists of the State Housing Board contain approximately 7,000 names. This fact led the Board to decide to close the waiting list on December 1, 1984. No further applications will be taken until the list and, therefore, the waiting period has been reduced. At the present, some families must wait as long as three and four years before they can receive housing assistance.

In addition to the waiting list of the State Housing Board, fifty-five of the fifty-eight active local public housing authorities also have waiting lists for their areas. According to a 1983 survey conducted by the Indiana State Housing Board, the combined total of the public housing authorities' waiting lists for

Section 8 Existing Housing and Traditional Public Housing is 19,026.

The waiting lists, however, are by no means all-inclusive of the number of low-income families in need of decent, safe and sanitary rental housing. A study conducted by the State Planning Services Agency entitled, Indiana Households Needing and Qualifying for Housing Assistance (June, 1979), projected that by 1985, considering renters only, the number of inadequately housed households eligible for housing assistance will total 182,480. Compared to the number of assisted units available, this figure is staggering.

At a time when deficits are high and funding for programs is very competitive, we realize that the Committee has many difficult and complex decisions to make. But we ask that you not ignore so great a need right in our own neighborhoods.

FUNDING LEVELS FOR PROGRAMS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FY 1981 - FY 1985

The attached table summarizes the trends in funding for HUD's Assisted Housing Programs. Budget information is provided by the National Association of Housing and Redevelopment Officials.

Assisted Housing Programs have absorbed perhaps the deepest cuts of any domestic programs -- a reduction of 55% in new units assisted, 68% in new budget authority, and 83% in the number of new units reserved for new construction/substantial rehabilitation. Among other HUD functions, policy development and research has been cut by 58%.

Three new programs were funded for the first time in FY 1984 appropriations--Rental Rehabilitation Grants (estimated to assist 60,000 units), Housing Development Action Grants (estimated to assist 16,000 housing units), and Vouchers (estimated to assist 15,000 units in FY 1984 and 38,500 units in FY 1985).

TABLE - NEW ACTIVITY - HUD HOUSING ASSISTANCE PROGRAMS: FY 1981-FY 1985
(NUMBER OF HOUSING UNITS)

ASSISTED HOUSING	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
NEW CONSTRUCTION/ SUBSTANTIAL REHABILITATION					
Section 8	58,695	11,489	-	-	-
Section 202/8	15,166	16,038	14,000	14,000	12,000
Public Housing (Conventional)	33,242	8,944	-	5,000	5,000
Public Housing (Indian)	3,128	3,192	2,000	2,500	2,000
TOTAL	110,231	39,663	16,000	21,500	19,000
EXISTING HOUSING					
Section 8 (Mod Rehab)	24,981	8,309	15,000	7,500	5,000
Section 8 (Existing)	85,289	97,570	67,146	56,000	37,500
Vouchers	-	-	-	15,000	38,500
TOTAL	110,270	105,879	82,146	78,500	81,000
TOTAL, ALL ASSISTED HOUSING	220,501	145,542	98,146	100,000	100,000
NEW BUDGET AUTHORITY FOR ASSISTED HOUSING	$25.0 BILLION	$17.4 BILLION	$ 8.6 BILLION	$ 9.9 BILLION	$ 8.0 BILLION

5 YEAR REDUCTIONS:

Number of New Assisted Units -- 55%
Number of Newly - Constructed, Substantially Rehabilitated Units -- 83%
New Budget Authority -- 68%

SOURCE: Dept. of HUD BUDGET SUMMARIES, FY 1982 - FY 1985;
HR 5713, Appropriations Act passed by the Congress June 27, 1984.

INDIANA STATE HOUSING BOARD POSITIONS

The Administration has proposed a moratorium on incremental units under both the Section 8 Existing and the Housing Voucher Program. This action is notwithstanding the acknowledged success of the Section 8 Existing Program and the increasing demand for housing assistance for low-income persons. The Indiana State Housing Board opposes any moratorium on incremental Section 8 Existing certificates, the lifeblood of the Housing Board's programs. ISHB supports 70,000 certificates for FY 1986: 50,000 for Section 8 Existing and 20,000 for Moderate Rehabilitation. This level is consistent with that in FY 1985 and continues a proven successful program to help meet the need for housing assistance. HUD should take steps to fully implement and evaluate the Voucher demonstration.

While the Voucher Program was funded by Congress as a demonstration program and has yet to be implemented and evaluated, the Section 8 Program has proven to be a successful means of providing assistance to low-income persons seeking standard rental housing in the private market. The pressure to provide assistance through Section 8 certificates is increased due to the lack of production of low income rental units. The Program has become a valuable complement to other forms of housing assistance provided by local government and an essential program for portions of the State not served by a local housing authority.

Section 8 has gained widespread acceptance across Indiana. Over the past eight years, the Housing Board staff have shown that Section 8 does work; it works for all involved. The people of Indiana are self-reliant and, historically, have shied away from a dependence on federal programs and subsidies.

This Program has shown, however, that when assistance is necessary for a healthy standard of living, Hoosiers will accept a moderate public expenditure that works along with the private market place.

In summation, the Indiana State Housing Board urges the Committee to study the facts presented and to consider these facts when making budget decisions. We urge you not to place a moratorium on incremental Section 8 units at a time when the need is so great. The State Housing Board supports the funding of 70,000 certificates for FY 1986.

We thank the Committee for the opportunity to submit this testimony.

Mr. Chairman:

My name is Thomas H. Potratz. I am submitting this statement for the record as a member of the National Council of Management Associations, Inc.

I have been a federal employee employed by the Social Security Administration for 24 years.

I give full support to the efforts to cut the budget. I do ask for fairness to all government employees. Our pay raises over the years have been substantially less than the private sector. Contributions to our retirement system have been substantially higher than the private sector. The change in age of retirement to 65 would be extremely unfair to employees who committed themselves to a federal career based on the rules when hired and now find it too late to start another career.

In conclusion I wish to submit a chart comparison relative to federal white collar pay, fringe benefits, retirement and working conditions.

[illegible]

[illegible]

NCSSMA
November, 1984

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples

The following charts were prepared by the Social Security Management Association which represents over 4000 managers and supervisors working in local Social Security Offices throughout the United States. The purpose of the charts is to provide accurate information and comparisons on federal white collar pay, fringe benefits, retirement and working conditions. We hope this information will give the reader an accurate picture of the current status of federal white collar compensation. Many organizations and individuals advocating reform of the federal government's compensation system are making incorrect and sometimes outrageous statements about the value of federal pay and fringe benefits. When put under the microscope of honest comparison with the private sector, many of the conclusions and statements are shown to be incorrect. The promise of substantial federal spending savings by adoption of recommendations based in the faulty valuation of federal pay and fringe benefits needs to be carefully evaluated.

One essential issue which must be addressed by decision makers who will decide federal compensation levels is: what comprises a correct private sector and state/local government employer sample against which federal workers will be compared? We believe the comparative base has to be large and medium size private sector firms and progressive state governments. On average, the federal government hires a higher percentage of college graduated professionals than do private sector firms and state/local government. For example, the staff of local Social Security Offices is made up of nearly fifty percent college graduates and people with college equivalent experience. Some people say federal white white collar employees should be compared with employees in private sector firms with as few as 25 workers and with small local governments and nonprofit institutions. Such employers are known to pay wages close to minimum and hire few skilled people. Historically federal employees have been given a good retirement system to compensate for lower pay and ambience. This history has to be carefully examined in order for good decisions to be made about federal pay and fringe benefits. The federal government must remain competitive if it is to hire and keep good people. The effectiveness of good government is at risk unless the right decisions are made.

Stephen D. Bauer
President
National Council of
Social Security Management Associations, Inc.
P.O. Box 2067
Minot, ND 58702

[illegible]

WHAT'S RIGHT

Page [illegible]
[illegible]
NOVEMBER, 1984

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples
I. PAY A. White Collar GS Pay .1970 Pay Act requires pay to be based on comparability with private sector. Bureau of Labor Statistics (BLS) conducts yearly PTAC survey. .A three person Advisory Committee on Federal Pay makes pay rate recommendation to the President. Committee uses BLS PTAC data as basis for it's recommendations. .President sets pay rates with Congressional oversight.	Chamber of Commerce Publicize that federal workers are 35% overpaid.	Chamber used suspect data and methodology. They used BLS data for 1982 and compared the average wage for all workers in the private sector with the average wage of the federal white collar worker. This would be like General Motors comparing pay for it's employees with the BLS average for all workers. GM workers would also be significantly overpaid.	American Compensation Association Survey - 1983/1984 This yearly survey by a trusted surveyor, revealed the following for salaried workers: For the ten years, 1974 thru 1983, private sector salaried workers in the U.S. enjoyed an 89.6% increase in pay. Federal worker pay in the same ten years increased 56.3%.
PTAC Findings v. Actual Pay Raises Given Finding* / Actual Raise 1978 8.4% 5.5% 1979 10.3 7.0 1980 12.6 9.1 1981 15.1 4.8 1982 18.4 4.0 1983 18.7 4.0 1984 18.3 3.5 *Pay gap between federal and private sector.	Grace Commission Attacks pay comparability system. Alleges that federal workers are overpaid. Wants PTAC survey to include firms with as few as 25 employees.	Using 1979-1981 data supplied by OPM and several studies going back to 1979, the Grace Commission made recommendations affecting 1984 pay. The Commission failed to consider several cutbacks in federal pay over the past three years. The federal government, on average, employs more professional people than the private sector. Firms with 25 employees in the private sector generally employ low skilled, near minimum wage employees.	Yearly Comparisons Actual Wage Increases ACA / Federal 1974 10.1% 5.5% 1975 9.4 5.0 1976 8.4 5.1 1977 8.4 7.05 1978 8.5 5.5 1979 8.2 7.0 1980 10.1 9.1 1981 10.6 4.8 1982 9.1 4.0 1983 6.8 4.0 1984 6.6E 3.5
	Donald Devine Director, OPM "Our federal wages are 55% ahead of the average manufacturing sector of private industry." "If we accept Chamber of Commerce statistics, we are 35% above comparability."	Donald Devine has access to all the valid data produced by BLS and OPM. However, he prefers to quote questionable data and sources.	Example-Impact on a $20,000 Worker 1973 / 1983 ACA Salaried Worker $20,000 $47,144 Federal Worker $20,000 $34,624

[illegible]

[illegible]

NCSSMA
November, 1984

WHAT'S RIGHT?

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples
I. PAY (Continued) B. Starting Pay for College Graduates: Liberal Arts. - GS 5 $13,687 per year $1,140 per month Technicians/Engineers - GS 7 $17,138 per year $1,428 per month Engineers/Lawyers/Masters Level Grads - GS 9 $20,965 per year $1,747 per month	Conventional wisdom says that all federal employees are overpaid.	Starting salaries of college graduates beginning work for the federal government run significantly behind the private sector and are no more than comparable with state and local government.	College Placement Council Salary Survey - 1984 Private Sector / Feds / State/Local Acctg. *$1,626 $1,405 $1,483 Busins. 1,537 1,354 1,446 Enging. 2,195 1,754 1,770 Comp.Sc. 2,040 1,732 1,551 Health 1,530 1,489 1,308 Soc.Sci. 1,451 1,432 1,266 *Monthly starting salary
C. Payroll Costs: All costs including retirement. (Figures in column three include both civilian and military personnel).	Grace Commission alleges the costs of payroll in the federal government substantially exceed the costs in the private sector.	Federal payroll costs in FY 1983 were $102.6 Billion. This represents 14.7 percent of $696.8 Billion in FY 1983 federal spending. The Grace Commission allegations are highly suspect because of study and comparative methodology they used.	Examples of Payroll Costs in the Private Sector as a Percentage of Sales W.R. Grace Co. 24% 3M 29% IBM 35% United Airlines 45% McDonalds 22% McGraw Hill 24% P.S. of Indiana 18% DuPont 25% Con. Foods 25%
D. Executive Pay: Senior Executive Service and most appointed executives (GS 16-18) have pay capped at $80,920.00.	There is some recognition that government executives are underpaid. The Grace Commission recognized this fact.	As well as being substantially underpaid as compared to private sector professionals, federal executives do not get the perks paid in the private sector such as stock options, club memberships, company cars, travel perks, etc.	1983 Hay Associates Survey for U.S. News and World Report - Average Private Sector Executive Pay* Utilities $111,500.00 Insurance 120,000.00 Banks 131,900.00 Petroleum 154,100.00 Food 148,900.00 *Includes value of perks

[illegible]

WHAT'S RIGHT?

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples
I. PAY (Continued)			
E. GS 13-15 Middle Manager Pay: Pay is set in a merit system. A five step rating system determines who gets merit pay increases.	Critics ignore the system and give the impression that no merit system exists. Allege pay raises are automatic regardless of performance.	GS 13-15 federal managers are paid under a merit pay system. "Fully Satisfactory" managers receive full comparability increases and merit pay. "Excellent" and "Outstanding" managers get higher merit increases. Managers with below "Fully Satisfactory" ratings don't get merit increases and also lose some or all of general pay raises. 1984 GS 13-15 Federal Manager Average Yearly Pay GS 13 $40,700.00 GS 14 $48,418.00 GS 15 56,595.00	1983 Hay Associate Survey for U.S. News and World Report - Average Yearly Middle Manager Pay Utilities $57,500.00 Insurance 50,300.00 Banks 50,700.00 Petroleum 66,400.00 Food 57,100.00 Cons. Prodts. 56,100.00
F. Pay for GS 1-12 Employees: Employees are all rated annually on a five step rating system. Only "Fully Satisfactory" and above employees get longevity pay increases.	Our critics contend that all federal employees are given pay increases whether they do acceptable work or not.	Employees rated at less than "Fully Satisfactory" have longevity pay increases withheld. Employees must be performing satisfactorily to get within grade longevity pay increases.	1983 Salary Comparisons by the Bureau of Labor Stats.

	Average Federal Worker	Average Private Worker
*File Clerk	$8,822	$9,702
*Typist	10,018	11,482
Secretary	17,132	18,254
Comp. Prog.	18,786	26,467
Accountant	27,723	34,244
Engineer	27,723	36,126
Chf. Chem.	47,941	60,471

*Beginning worker - others are experienced workers.

Comment: Our critic's allegations that federal white collar workers are overpaid has no support in facts. Since 1974, wages of salaried workers in the private sector have increased by 89.6 percent according to the American Compensation Association. In the same period federal pay has risen 56.5%. In addition federal payroll costs as a percentage of GNP have decreased from 5.1% in 1970 to 3.2% today. At the same time productivity of federal employees from 1967 thru 1982 has grown at 1.5% per year, double the national (non-farm) average of 0.8% per year. The [illegible] recent report of the President's Pay Advisory Committee recommends the fomula for making [illegible] private sector comparison be revised to eliminate the pay gap. This suggestion clearly fails [illegible] into [illegible] the pay gap created over the past ten years by capped pay increases.

[illegible]

WHAT'S RIGHT?

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples
II. FRINGE BENEFITS			
A. Sick Leave Employees accrue four hours of sick leave each two weeks - 104 hours per year. There is no limit on the hours which may be accumulated.	The Grace Commission says private sector average annual sick leave usage is 5.5 days and federal employees use 9 days. Allege that in 1981, sick leave costs as a percent of payroll was 3.95% as compared to 1.70 % in the private sector.	Federal employees have no short term disability program. Any absenses for illness must be covered by accrued sick leave, regardless of the duration. Once an employee's accrued sick leave is exhausted, the employee is not paid. There was no mention of this difference in the Grace report.	A 1983 BLS study showed that 93% of private sector employees had employer provided income protection for short term disability. Employees with five years of service, on average, had 5-15 weeks of sick leave per year with full pay.
B. Vacation Pay Employees accrue: 1 - 2 years employed - 13 days per year 3 - 14 years - 20 days 15 plus years - 26 days	The Grace Commission alleges federal vacation policy is more liberal than 75% of private sector firms. Using 1981 data, the Commission said cost of vacations as a percent of federal payroll was 6.99 as compared to a private sector figure of 4.9%.	Studies show that federal employees are comparably treated. It is a frequent practice in the private sector to give personal holidays in addition to vacation days. These are not given in the federal sector.	Hewitt Associates (1982) Survey of 659 Private Sector Firm's Vacation Practices 1 year service: 91% of employees got 2-2.8 weeks 5 years: 63% 3-3.8 weeks 31% 2-2.8 weeks 15 years: 80% 4-4.8 weeks 25 years: 20% 4-4.8 weeks 65% 5-5.8 weeks 12% 6-6.8 weeks Private Sector Example Reader's Digest-4300 Employees First year-employee gets 2 weeks vacation. Second Year - 4 Weeks 20 years - 6 weeks 25 years - 8 weeks Plus all employees get every Friday off in May.

Comment: A 1983 report by the Congressional Budget Office revealed that paid time off for vacation and sick days for federal employees was at 17.3% of payroll and the private sector at 17.9%. A Hay Associate 1982 study showed that federal employees averaged 367 hours of paid time off compared to 369 in the private sector.

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples
II. FRINGE BENEFITS (Cont.)			
D. Holidays: Federal employees get nine paid holidays per year. In 1986 they will get ten when the Martin Luther King holiday is added.	Conventional wisdom says that federal employees get more holidays than workers in the private sector.	The holiday norm in the private sector is 10-12 days. In addition, many companies close down for extra days at Thanksgiving and Christmas which is not done in the federal government.	1983 BLS Survey Employers employing 250 and more people in the private sector give 10 holidays per year. Hewitt and Associates-1982 659 Employers 10-10.9 holidays given by 34% of firms studies 11.0-11.9 24% 12.0-12.9 15% Private Sector Examples Reader's Digest - 12 General Motors - 11 State of Michigan - 11 City of New York - 11 W.R. Grace Co. - 11
E. Life Insurance: Life insurance is available at salary plus $2000.00. Employee pays two-thirds of the premium cost.	No allegations.	Life insurance is a typical, mostly universal low cost fringe in the private sector. Many companies pay the full premium cost. Private sector firms also generally provide coverage at 1.5-2.0 times salary.	1983 BLS Survey 96% of employers offered life insurance coverage and 80% paid the full premium. Hewitt and Associates 1982 15% of company plans were company paid. Another 71% required some employee contribution. 29% offered an employee paid plan for dependents.

Comment: The total cost of federal white collar fringes (including retirement) was found to run 41% of payroll in a 1982 Hewitt and Associates study. In a Chamber of Commerce 1981 study reported in U.S. News and World Report, the Chamber found fringes in the private sector at 37% and rising. The Grace Commission said the 1981 cost of fringes in the private sector to be 37.1% although they underestimated the cost of health insurance and retirement. Two studies released in 1984 said that federal fringes ran 40-43% of payroll. The Congressional Budget Office and Hay Associates concluded, that federal fringes trail (CBO) or are only six-tenths of one percent more valuable (Hay) than the private sector. The General Accounting Office has calculated that federal pay and fringes thru 1983 were cut more than $17.6 Billion since 1977. At the same time pay and the value of fringes has consistently risen in the private sector.

FEDERAL WHITE COLLAR (GS) PAY AND FRINGE BENEFITS

WHAT'S RIGHT?

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples
III. CIVIL SERVICE RETIREMENT SYSTEM (CSRS) A. Retirement Age: Optional Retirement: .Age 55 - 30 years service .Age 60 - 20 years service .Age 62 - 5 years service Disability Retirement: .Any age with 5 years of service.	Grace Commission: Federal employees typically retire at age 55 with "full" pensions versus age 63 - 64 in the private sector. J. Peter Grace: "When you start early retirement with an indexed pension, you've got it made baby". "Normal retirement age under CSRS is 55; 65 in the private sector". Donald J. Devine: (During Congressional testimony): "Our figures show that 97% retire at age 65 in the private sector". "But still a very large portion of them (federal employees) retired at age 55".	In 1982, 59,596 federal employees retired. The average age was 61.0 years and the retirees averaged 28 years of service. For those retiring between ages 55-59, they averaged 34 years of federal service. The ten year retirement age average from 1973-1982 was 61.1 years. Only 21,300 federal employees (1.5% of the federal workforce) were eligible to retire at age 55 in 1982. Only 23.5% of all workers who work at one time or another for the federal government exercise their right to retire. (Above data is all taken from an OPM report of the FY 1982 CSRS operation) -Social Security Administration data shows that 74% of all retirement claims are taken from workers under age 65. According to a 1984 study of 1300 private sector firms by the Congressional Budget Office, the average retirement age in the private sector is 61.8 yrs.	Almost all private sector firms and state/local governments permit retirement at age 55 with 20-30 years of service. The Wyatt Company studied 50 top corporations in 1983 and found that nearly all had provisions allowing employees to retire at age 55 with as little as 5-10 years of service. Examples Sears: Age 55 - 20 years Cabot Corp: Age 50 - 10 years GM: Age 55 - 10 years Any Age - 30 years RCA: Age 55 - 30 years W.R. Grace: Age 55 - 10 years U.S. Air: Age 55 - 10 years State/Maryland: Age 55 - 15yrs. PS Indiana: Age 50 - 15 years DuPont: Age 50 - 15 years .Majority of employees retire between age 58-62. .Average retirement age is just over 60. .Unreduced benefit is available at age 58 with 27 years of service.

[illegible]

WHAT'S RIGHT?

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples
III. CSRS CONTINUED B. Benefit Amounts: Replacement Rates: .Replacement formulas are calculated based on years of service. They run from 7.5% of the high three salary at five years to 80% with 43 years of service. .An employee with 30 years of service is replaced at 56.25% and one with 40 years of service at 76.25%. .The benefit is reduced by about 5.5% if a worker provides for a survivor benefit. .A "full" benefit (80% replacement rate) is available only to employees who work 43 years in the federal government. Average Monthly Benefits (FY 1982-latest data avail.) Average retirement-$1041.00 Average survivor - $463.00 Under $200.00 - 5.1% of annuitants. Under $500.00 - 18.1% Under $1,000.00 - 55.3% Under $1,500.00 - 81..8% Over $3,000.00 - 1.6%	J. Peter Grace: Federal pensions are three to six times larger than those in the private sector. Grace Commission: CSRS benefits should be scaled back by using high five years in the computation, reduce benefits for early retirement, discontinue unused sick leave credits and adjust survivor benefits. Commission alleges CSRS benefits are three to six times greater than the private sector. Donald J. Devine: "The average federal pension is $4,000.00 greater than the private sector average pension". "For a federal employee who has earned $50,000.00, his pension will be three times that of the pension for an employee earning the same in the private sector. We are creating millionaires". "It is possible for a federal manager earning $50,000.00 a year to retire at age 55 with 70% of his salary".	The allegations at the left were all made by ignoring the value of social security benefits as a part of a private sector employees retirement income. Taken in total, the retirement benefits of most employees working in comparable paying jobs in private sector firms and state/local governments will exceed the CSRS annuities of federal employees. When the replacement rates of federal and private sector workers are accurately compared, the typical corporate and State/local government annuity plus social security will exceed the CSRS benefit. In addition, most corporate retirement plans have third tier investment/stock incentive plans which add further value to retirement plans. These, of course, are not available to federal workers. A federal employee with 30 years of service gets a salary replacement rate of 56.25%, reduced to approximately 51% if a survivor annuity is elected. Further, CSRS annuities are fully taxable which reduces the replacement rate below 50%. For this reason and the fact that a lot of fed- don't have 30 years of work at age 55, the great majority don't retire at 55. (Continued on next page)	Examples of Private Sector Pensions Compared to CSRS 35 year employee - $20,000 per year: W.R. Grace Comp.: Social Security - $7000.00 Company Pension - $7400.00 Total $14400.00* *Grace employees will also get additional payments from third tier investments. ** Federal Employee: CSRS Annuity - $13200.00 If employee elects a survivor annuity, the the benefit is reduced to - $12200.00 After taxes - $11600.00 GM Hourly Employee 30 Years of Service: Social Security - $7000.00 GM Pension - $14000.00 Total $21400.00 GM employees also have some additional optional personal third tier benefits.* *Note: Federal employees have no third tier thrift plans; no 401K or stock option plans.

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples
III. CSRS CONTINUED B. Benefit Amounts Cont.:		According to data published by the Social Security Adm., the retirement replacement rates for people with pensions and social security averages 64% for married couples, men 56% and women 67%. After taxes the respective figures are 73%, 66% and 76%. After studying dozens of corporate pension plans, our organization has yet to find a plan producing less in total benefits. For a federal manager to get 70% of salary at age 55, he would have had to work 37 years. How many federal managers earning $50,000.00 at age 55 began their career with the federal government at age 18? This is an example of using extreme cases to exaggerate federal pensions.	Examples Continued: RCA Corporation: Social Security - $7000.00 RCA Pension - $9600.00 Total $16600.00 State of Maryland: Social Security - $7000.00 Maryland Pension $13300.00 Total $20300.00 Hay Associates Study(1983) In testimony before a House of Representatives Committee in 1984, Hay Associates said the 35 year retirement benefit replacement as a percent of pay was 66%-80% in the private sector and 60%-63% under the CSRS.
Top Federal Executive Pensions: Top government executives, including Congressmen/women and Senators have their pensions capped at $65,400	In mid 1984, an issue was made in the press about the pensions of former Congressmen. Screams erupted when it was learned that some former elected officials were getting pensions of $65,400. Gerald Ford was one example used. Some news releases compared the pensions to those of $50,000.00 salaried middle managers in the private sector.	Executive pensions paid to individuals in the private sector with stature and responsibilities of top federal executives are always in six figures. Take J. Peter Grace's pension of $357,500.00 per year. Third tier pension investments which can add hundreds of thousands dollars to private sector executive pensions are not available to federal executives.	The value of third tier investment options available to private sector white collar and many hourly workers is staggering. A Wyatt Company "Top 50 Survey" (1983) showed that all 50 had some sort of 401K or stock option type plans. They said an employee investing 8% of a $37,800 salary could walk away after 30 years with $539,000 from the W.R. Grace thrift plan and $958,000 from Ford Motor Company.

Civil Service: Current Compensation	Allegations of Excesses	Facts	Compensation Studies/ Private Sector Examples
III. CSRS CONTINUED			
C. Employee Contributions: Federal employees contrib- 7% of their entire gross pay to the CSRS. They also pay an additional 1.3% of salary to Medicare. The employer matches the 7% retirement contribution.	Administration: Proposes that employees do not pay enough for their pension. FY 1985 budget proposals asked for employee contributions to be raised to 9% over two years. Grace Commission: Said employee contributions should be raised to 11% to require employees to pay their fair share. Donald J. Devine: In testifying before a House of Representatives Committee in 1983, Mr. Devine called for an 11% contribution by employees. He said 60% of private sector employees had no retirement plan and that they would be willing to pay 11% for such a system.	The federal employee pays more for his retirement system than the private sector worker. The private sector worker contributes 5.75% of salary up to $39,600.00 for Social Security (pay an additional 1.3% for Medicare for total of 7.05%). This worker almost never pays for the pension provided by the employer as the typical private sector pension plan is employer financed. Many private sector employers also will match a certain percent of employee contributions to third tier thrift plans or stock purchase plans. The allegations that the CSRS is more costly than private systems are without merit.	1982 BLS Survey of Firms Employing 250 or more Employees: 93% of employer pension systems required no employee contributions. Hewitt and Associates (1982) 88% of company pension plans were entirely company financed. Wyatt Company (1983) 39 of the 50 top corporations included in the survey paid the entire cost of the company pension.
D. Financing and the CSRS Trust Fund: The CSRS is financed by matching employee/employer contributions, interest paid on the CSRS Trust Fund and employer contributions to cover interest on unfunded liability. In FY 1983 the Trust Fund gained $13 B in assets and ended the year with a balance of $109.9 B.	Grace Commission: As of September, 1982, the unfunded liability was $514.8 B. The federal government pays 29% of payroll for pensions compared to 14% in the private sector. Grace Commission also said the unfunded liability represents 85% of payroll to finance	Facts The solvency of the CSRS Trust Fund must be judged on its ability to meet obligations as they become due. Currently the Trust Fund has over $110 Billion in assets and continues to show positive growth. The $110 Billion represents enough money to pay over five years of annuities to current beneficiaries without another penny being added to the Trust Fund. However, the government is assured of a steady supply of workers to make contributions and the Trust Fund does not	

Civil Service: Current Compensation	Allegations of Excesses	FACTS
III. CSRS Continued D. Financing and the CSRS Trust Fund Cont.: The statutory unfunded liability of the Trust Fund was set at $187.9 Billion at the end of FY 1983, down from $193.4 B at the end of FY 1982. The interest paid on the unfunded liability is at a 5.0% rate. CSRS annuities are taxable and in FY 1983, annuitants paid slighly over $3 Billion in taxes on their annuities.	Donald J. Devine: The unfunded liability of the Civil Service Retirement system is a half trillion dollars. The federal government spends more money on Civil Service retirement than it does on welfare. The unfunded liability of the CSRS is proportionately greater than Social Security unfunded liability. The total cost of the government contribution to CSRS is 33% of payroll. Chamber of Commerce: The federal governments contribution to the retirement system is 33% of payroll and the unfunded liability is a half trillion dollars.	face the issue of insolvency because of the bankruptcy of the employer which can be the case in the private sector. For FY 1983 ending September 30, 1983, the Trust Fund paid out $20.8 Billion in annuities. Receipts to the Fund included $4.3 B in employee contributions, $4.3 B in employer matching money, $9.7 B interest on the Trust Fund and a return of about $3.5 B in income taxes on annuities for a total of $21.8 Billion. These receipts covered the outgo. The federal government also had to kick in another $9.6 B to cover interest on unfunded liability created over the years by inadequate financing and $3.9 B for amortization of pay and benefit liberalizations since 1969. The extra money contributed by the government to cover amortizations and unfunded liability is an issue which creates confusion and contention over the health of the CSRS. The actual unfunded liability of the Trust Fund as of 9/30/83 for statutory purposes was calculated at $187.9 B. This is a best actuary guess of the remaining obligations of the system if it had to pay remaining liabilities with no further income. Those who say the unfunded liability is a half trillion dollars are using a dynamic or worst case scenario by projecting wage and inflation increases into the next century. At any rate, there are serious questions as to whether the unfunded liability actually has anything to do with the solvency of the current system. Edwin Hustead speaking for Hay Associates in a 1984 Congressional Hearing said, "Unfunded liability has nothing to do with the solvency of the current system. It cannot be equated with present or future debt." The unfunded liability does not add a cent to the federal budget or deficit. It is only an actuarial guess about the future of the system. The only fiscal responsibility the federal government has in relation to the unfunded liability is to make a yearly interest payment on the calculated liability. The sum of this payment moves within the federal budget from general revenues to the CSRS Trust Fund. The retirement system costs the government about 25.8% of payroll according to a 1984 study by the Congressional Budget Office (CBO). The CBO said if private sector retirement systems were adopted by the federal government, it would cost the government 22.8% of payroll. The Grace Commission placed the cost

Civil Service: Current Compensation	Allegations of Excesses	Facts
III. CSRS CONTINUED D. Financing and the CSRS Trust Fund Continued:		of the retirement system at 29% of payroll and Mr. Devine has said it is 33%. The Grace Commission also said the cost of retirement in the private sector was 14% of payroll (employer and employee FICA). This vastly understates the cost in the private sector. The CBO says it is 22.8%,and Hay Associates says it is 25.6%. The 29% figure used by the Grace Commission was calculated using dynamic projections of unfunded liability; it is not a figure using static assumptions of what the costs are today. In a 1983 study the Congressional Research Service ran for a House Committee, they found the static cost of the retirement system to be 13.73% of payroll as of 9/30/77. Mr. Devine's allegation that the CSRS costs more than welfare is a cheap shot and untrue. For this year the government will pay about $21.6 B in CSRS annuities and $46.0 B for welfare programs. In conclusion the CSRS is soundly financed, has a large surplus in the Trust Fund and is nearly comparable to the costs of pensions in the private sector.

Comment: The Grace Commission says that if their recommendations for cuts in federal retirement were made, the government would save $18.06 Billion in the years 1984-1986. Under scrutiny of a House Committee, the real savings were calculated at less than $3 Billion. Reasons for the differences were that the Grace Commission based its recommendations in study data taken mostly from late 1980 and early 1981 and also ideological conclusions. Since 1980, both federal pay and fringe benefits have been reduced and changed. It is estimated that federal pay and fringes have been reduced by nearly $16 Billion since 1977.

		Facts	Compensation Studies/ Private Sector Examples
E. Cost of Living Allowances: Federal retirees now receive a yearly COLA tied to the Consumer Price Index. Over the past three years substantial modifications have been made in the allowances.	Grace Commission: "From March 1977 to March 1982, CSRS COLA's averaged 9.2% per year for Civil Service versus 2-3% for the private sector." Other Estimates: Over 50% of the current unfunded liability of the CSRS stems from COLAs given to federal annuitants from the mid 1970s thru 1982.	We have to agree that COLA increases got out of hand for both federal retirees and Social Security beneficiaries. Benefit increases fueled by the CPI far outpaced revenues and wages. However Congress took action in the early 80's to cut back on the COLA for federal retirees, reducing annuities by about 10%. This area needs to be examined further, but recent cuts must be considered when decisions are made.	Hewitt Associates (1983) Estimated that private sector workers receive cost of living increases equal to about 70% of the CPI. Their Social Security benefits are fully indexed and private pension plans give ad hoc increases equal to about 20% of the CPI.

Civil Service: Current Compensation	Allegations of Excesses and Facts	Private Sector Examples	
IV. WORKING CONDITIONS (AMBIENCE) Federal employees have little in the way of extras to make working conditions any better than average. Generally the work space decor is bland and the furnished equipment is behind the ergonomics and technology of the private sector. There are no funds or time given for office parties, recreation, etc., that are available to public sector managers to help build morale and esprit de corps. Other than a modest cash and noncash award system, federal workers get their pay check and not much else.	Federal employees came in for criticism from the Grace Commission for occupying too much space. The Commission said the average space occupied by private sector workers is 135 sq. ft. while federal employees use an average 165 sq. ft.. No comment was made about the comparative quality of the private sector work environment with the federal sector. One reason the private sector may do with less space, if it actually does, is the greater attention and money the private sector gives to engineering good work space for employees.	The private sector pays a significant amount of attention to the extras which build company loyality and employee morale. These extras were not added in to the compensation comparisons done by the Grace Commission. While tacking a dollar value on them may be difficult, they have significant dollar and motivating value. Following is a cross section of the kinds of ambience enhancers provided by private industry which are foreign to federal workers:* Apple Computer .Gives all new employees an Apple IIE computer. .Quarterly profit sharing. .Hosts yearly Christmas party at which all employees are given a gift. Leo Burnett Company Two yearly events: .August 5-Aniversary Day-high value gifts given to all ees. .December Bonus Days Breakfast meeting for all employees and presentation of year end 15-20% bonuses. Reader's Digest .35 hour work week .Busses people to work. .Pays 50% athletic club membsp. .Banquets for longevity ees.	Hallmark Company .$1,000 adoption assistance. .$1,000 interest free emergency loans. .Free break refreshments. .Automatic low interest $2500 per year college loans to employee dependents. .Profit sharing. Johnson Wax .Johnson Park-147 acre recreational park for employees. .Lighthouse Resort-vacation place for employees-$85.00 weekly cottage rentals. Kollmorgen Plant Social Activities Committee-company finances monthly employee outings. Nissan-Tennessee $150.00 monthly vehicle leasing plan for employees. Pitney Bowes 19% quarterly profit sharing. Southern California Edison 12 staff physians provide all medical services to employees. 25% off electric bill. Merle Norman .25 cent lunches .Staff dentists .Biweekly Employees Night .Cake on birthday

*Source: The 100 Best Companies to Work for in America, Addison-Wesley Publishing Company, 1984.

FEB [illegible]

TESTIMONY BY
MAYOR JAMES F. RIEHLE
LAFAYETTE, INDIANA TO THE
SENATE BUDGET COMMITTEE FIELD HEARINGS
LAFAYETTE, INDIANA
FEBRUARY 15, 1985

I WANT TO EXTEND A WARM LAFAYETTE WELCOME TO YOU SENATOR QUAYLE, AND THANK YOU FOR CONDUCTING SENATE BUDGET COMMITTEE HEARINGS IN LAFAYETTE AND THOUGHOUT THE STATE OF INDIANA. TO MY KNOWLEDGE, THIS IS THE FIRST TIME A SENATE BUDGET FIELD HEARING HAS BEEN CONDUCTED IN LAFAYETTE, GIVING LOCAL ELECTED OFFICIALS AND CITIZENS AN OPPORTUNITY TO PARTICIPATE IN BUDGETARY PROCESS WITHOUT TRAVELING TO WASHINGTON.

THE FEDERAL REVENUE SHARING PROGRAM, IMPLEMENTED BY PRESIDENT NIXON, REPLACED MANY CATAGORICAL PROGRAMS AVAILABLE TO LOCAL GOVERNMENT, AND PROVIDED A "SHARING" OF THE FEDERAL REVENUE ON A CONSISTANT, RELIABLE BASIS. THE OBJECTIVE IN CREATING FEDERAL REVENUE SHARING, WAS TO ASSIST CITIES THAT LACKED THE REVENUE CAPACITIES THEMSELVES.

EXPENDITURE OF THE FUNDS, ACCORDING TO MINIMAL GUIDELINES, IS DETERMINED BY LOCAL CITIZENS AND LOCAL LEGISLATIVE BODIES. IT HAS BEEN ONE OF THE MOST EFFICIENTLY ADMINISTRATED FEDERAL PROGRAMS, AND HAS SERVED THE NATION AND THE CITIES OF AMERICA WELL. THROUGH THE YEARS WE HAVE USED THE FUNDS TO CONSTRUCT NEEDED SEWER PROJECTS, STREET IMPROVEMENTS, PURCHASED FIRE TRUCKS AND POLICE CARS, FUNDED SOCIAL AGENCIES, AND THE LOCAL PUBLIC TRANSPORTATION CORPORATION. IN RECENT YEARS WE HAVE FUNDED EMPLOYEE HEALTH AND HOSPITALIZATION PROGRAMS AND HAVE CONTINUED TO HELP FUND SEVERAL SOCIAL SERVICE AGENCIES. THE FEDERAL REVENUE SHARING PROGRAM SHOULD NOT TERMINATE BEFORE ITS PRESENT AUTHORIZATION EXPIRES, AND IN MY JUDGEMENT, SHOULD BE REAUTHORIZED AND CONTINUED FOR THE FUTURE.

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM AUTHORIZED UNDER PRESIDENT FORD'S ADMINISTRATION, HAS BEEN VERY SUCCESSFUL AND BENEFICIAL TO LAFAYETTE AND THE CITIES OF INDIANA.

THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM PROVIDES AN ECONOMICAL AND EFFICIENT WAY TO ACCOMPLISH THE MOST BASIC ELEMENTS OF OUR URBAN SOCIETY. I REFER TO THE ABILITY OF ATTRACTING PRIVATE REINVESTMENT IN OUR CITIES, OF PRESERVING OUR TAX BASE, INCLUDING HOUSING AND NEIGHBORHOODS, AND OF PROVIDING JOBS. CDBG PROVIDES THE MEANS TO BRING TOGETHER SCATTERED EFFORTS INTO COMPREHENSIVE STRATEGIES. IT ENABLES US TO PACKAGE PUBLIC AND PRIVATE FUNDS FROM NUMEROUS SOURCES INTO EFFECTIVE PROGRAMS THAT CAN MAKE A DIFFERENCE.

CDBG HELPS TO PROTECT THE CITY'S INVESTMENT IN NEIGHBORHOODS AND COMMUNITY FACILITIES. IT IS CHEAPER TO MAINTAIN A BUILDING OR A NEIGHBORHOOD, THAN TO LET IT DECAY AND TEAR IT DOWN. CDBG IS ADDRESSED TO THE PHILOSOPHY OF PRESERVING WHAT WE HAVE. I BELIEVE THAT IT IS AN ECONOMICAL AND EFFECTIVE USE OF PUBLIC MONEY AND THAT TO DIMISH IT WOULD BE FALSE ECONOMY.

LAFAYETTE, ALONG WITH MANY OTHER CITIES, HAS USED CDBG FUNDS TO CREATE A SERIES OF PUBLIC/PRIVATE PARTNERSHIPS TO ACCOMPLISH ITS GOALS. WE HAVE BROUGHT TOGETHER NEIGHBORHOOD RESIDENTS, LENDERS AND BUSINESSES, AND THE STATE NEIGHBORHOOD DEVELOPMENT ASSISTANCE PROGRAMS IN NEIGHBORHOOD HOUSING SERVICES, INC. ALSO, THE LOCAL BOARD OF REALTORS, AND A CONSORTIUM OF AREA HIGH SCHOOL BUILDING TRADES STUDENTS WORK WITH CDBG REHABILITATION FUNDS IN THE PARTNERSHIP FOR BETTER NEIGHBORHOODS. FOR HISTORIC PRESERVATION PROJECTS, WE HAVE BROUGHT TOGETHER THE INDIANA LANDMARKS FOUNDATION, THE WABASH VALLEY TRUST FOR HISTORIC PRESERVATION, AND CDBG.

WE HAVE HELPED LOW-INCOME HOMEOWNERS REHABILITATE THEIR HOMES, AND SAVED A NUMBER OF PROBLEM PROPERTIES WHICH HAD SEVERE BLIGHTING EFFECTS ON THEIR NEIGHBORHOODS. WE HAVE ALSO HELPED PRESERVE THE LONG CENTER FOR PERFORMING ARTS, AND OTHER HISTORIC PROPERTIES.

OUR COMMUNITY FACILITIES PROGRAMS INVOLVE PARTNERSHIPS WITH JOB TRAINING GROUPS AND UNIONS. WE HAVE CONSTRUCTED APPROXIMATELY 4 MILES OF SIDEWALKS AND CURBS BY COMBINING PUBLIC AND PRIVATE INVESTMENT AND WORKING WITH THESE GROUPS TO MAKE THE MOST IMPACT IN THE MOST ECONOMICAL WAY. WE HAVE BUILT OR RENOVATED PARKS IN COOPERATION WITH THESE GROUPS, AS WELL AS, VOLUNTARY ORGANIZATIONS SUCH AS SERVICE CLUBS AND NEIGHBORHOOD ORGANIZATIONS. WE HAVE BUILT THE HANNA COMMUNITY CENTER WITH CDBG FUNDS. WE HAVE RECONSTRUCTED ALLEYS, CORRECTED SEWER PROBLEMS AND WORKED WITH A COMBINATION OF CITY AGENCIES TO MAKE NECESSARY IMPROVEMENTS IN THE OLDER AREAS OF THE CITY.

WE HAVE WORKED WITH PROPERTY OWNERS AND LENDERS TO REVIVE 13 BUILDINGS IN THE DOWNTOWN AREA. THERE ARE NOW NEW JOBS AND BUSINESSES IN BUILDINGS THAT PREVIOUSLY WERE VACANT AND DETERIORATING. WE HAVE PROJECTS IN PROCESS IN THIS PROGRAM WHICH ATTRACTS AT LEAST 6 PRIVATE DOLLARS FOR EACH CDBG DOLLAR SPENT.

WE HAVE JOINED WITH LOCAL INDUSTRY AND BUSINESS TO FORM GREATER LAFAYETTE PROGRESS, INC., WHOSE MISSION IS TO ATTRACT AND RETAIN INDUSTRY AND BUSINESSES TO OUR COMMUNITY. THIS IS ANOTHER EXAMPLE OF PUBLIC/PRIVATE PARTNERSHIP THAT WAS STRONGLY ENCOURAGED BY THE REAGAN ADMINISTRATION THE PAST 4 YEARS.

ALL OUR PROGRAMS AFFECT ECONOMIC DEVELOPMENT, IN THAT THE PROJECTS INVOLVE NEW JOBS AND NEW BUSINESS FOR LOCAL MATERIALS SUPPLIERS AND BUSINESSES. I EMPHASIZE NEW JOBS AND NEW BUSINESS BECAUSE CDBG FUNDS ARE SPENT ON PROJECTS

WHICH WOULD PROBABLY NOT BE FUNDED BY THE PRIVATE SECTOR.

THE NEW RENTAL REHABILITATION PROGRAM SHOULD BE RETAINED. THIS HAS EVOLVED, BY TRIAL AND ERROR, FROM A SERIES OF LOW-INCOME HOUSING PROGRAMS BEGINNING IN THE '30s. HUD SECRETARY PIERCE SAID "IT IS THE MOST EFFICIENT WAY WE HAVE DEVISED TO MEET A VERY SERIOUS NEED", AND I AGREE.

THE CDBG PROGRAM HAS HAD POSITIVE RESULTS IN LAFAYETTE AND CITIES THROUGHOUT THE STATE AND NATION, AND SHOULD BE FUNDED AT ITS AUTHORIZED LEVELS.

FEDERAL ASSISTANCE FOR PUBLIC TRANSPORTATION SHOULD CONTINUE. THE GREATER LAFAYETTE PUBLIC TRANSPORTATION CORPORATION WOULD HAVE TO SEVERALY REDUCE ITS SERVICE AND POSSIBLY CEASE OPERATION, IF THE PROPOSAL TO STOP FUNDING IS ADOPTED. THE GREATER LAFAYETTE PUBLIC TRANSPORTATION CORPORATION SERVED OVER ONE MILLION PASSENGERS THE PAST TWELVE MONTHS, AND PROVIDES THE ONLY AFFORDABLE TRANSPORTATION FOR MANY LOW-INCOME CITIZENS TO AND FROM THEIR WORK PLACE. IT IS THE ONLY TRANSPORTATION AVAILABLE TO MANY SENIOR CITIZENS TO GROCERY STORES, SHOPPING CENTERS, CHURCHES AND MEDICAL FACILITIES. LIKEWISE, AMTRAK IS AN AFFORDABLE, SAFE MEANS OF LONG DISTANCE TRANSPORTATION FOR MANY ELDERLY CITIZENS AND SHOULD BE CONTINUED.

PROGRAMS THAT PROVIDE FOOD, HOUSING AND MEDICAL ASSISTANCE TO THE POOR AND ELDERLY SHOULD NOT BE CUT OR TERMINATED. MANY CITIZENS HAVE NOT RECOVERED FROM THE RECESSION, AND HAVE LITTLE MORE THAN A SUBSISTANCE EXISTANCE.

TWO-THIRDS OF THE BUDGET REDUCTION OF 1981 AND 1982 WERE ABSORBED BY DOMESTIC AND URBAN PROGRAMS. MOST CITIZENS AND ELECTED OFFICIALS ACCEPTED THOSE REDUCTIONS IN ORDER TO HELP PULL THE COUNTRY OUT OF THE SEVERE RECESSION. IT WOULD NOT BE ACCEPTABLE TO PLACE THE BURDEN OF DEFICIT REDUCTION AGAIN ON THAT SECTOR OF OUR SOCIETY.

FEDERAL SUPPORT FOR TRANSPORTATION AND HIGHWAY PROJECTS, WASTEWATER AND SEWER PROJECTS, EDUCATION, SMALL BUSINESS AND OTHERS, HELPED THE COUNTRY TO RECOVER FROM THE RECESSION. THEY ALL RELATE TO ECONOMIC DEVELOPMENT OF OUR CITIES, STATE AND NATION, AND IF THAT FEDERAL SUPPORT IS WITHDRAWN, I FEAR ANOTHER MORE SEVERE RECESSION WILL BE FORTHCOMING, CAUSING GREAT SOCIAL SUFFERING AND UNREST. TO PLACE THE BURDEN OF DEFICIT REDUCTION ON ECONOMIC, EDUCATIONAL, AND SOCIAL PROGRAMS, AND INCREASE DEFENSE EXPENDITURES APPROXIMATELY 13% SHOULD NOT BE SUPPORTED.

ONE ITEM OF THE PROPOSED DEFENSE BUDGET RECOMMENDS THE CONSTRUCTION OF 48 MX MISSILES AT A TOTAL COST OF 4 BILLION DOLLARS. IF MY MATH IS CORRECT, THAT IS 83 MILLION PER MISSILE. IF DEFICIT REDUCTION IS THE TRUE GOAL, SUCH AN EXPENDITURE BEGS THE QUESTION, " WOULD 24 ADDITIONAL MX MISSILES BE ENOUGH?" WE COULD COMPLETE OUR RAILROAD RELOCATION PROJECT FOR THE COST OF ONE MX MISSILE. BY THE WAY SENATOR, I HOPE YOU WILL CONTINUE TO SUPPORT AUTHORIZATION AND FUNDING FOR OUR RELOCATION PROJECT.

PART OF THE FEDERAL GOVERNMENT'S RESPONSIBILITY IS TO PROVIDE FOR THE NATIONAL DEFENSE. ANOTHER RESPONSIBILITY IS TO PROMOTE DOMESTIC TRANQUILLITY. I DON'T BELIEVE EXCESSIVE DEFENSE EXPENDITURES AND THE ELIMINATION OF FUNDING FOR THE HUMAN NEEDS OF OUR SOCIETY WILL PROMOTE DOMESTIC TRANQUILLITY.

THANK YOU FOR COMING TO LAFAYETTE TO CONDUCT THIS HEARING, AND THE OPPORTUNITY FOR ME TO TESTIFY.

SENATOR QUAYLE: AGRICULTURAL FINANCE HEARING

SUBMITTED BY: KAYE H. WHITEHEAD

SENATOR, I appreciate the opportunity to comment on fiscal policy and the current financial status of Agriculture, and I want to commend you for taking the time to address this important issue.

I would like to divide this broad subject into four main categories:

1. THE DEFICIT. Our nation's current fiscal policy characterized by immense deficits and high interest rates, directly hurts Agriculture. Farmers pay excessive interest rates to finance land, facilities and operations. That aggravates cashflow problems, pressures many farmers to liquidate part or all of their most saleable items and reduces profitability prospects. The same high interest rates help boost the value of te dollar and undermines the U.S.'s competitive ability to export agriculture commodities, resulting in suppressed prices and encourage production limits. The dollar's value also attracts foreign countries into our domestic markets.

Senator, I would encourage you to endorse efforts to reduce the deficits substantially by reducing government spending fairly and equitably across the board. This reduction would result in lower interest rates, and thus a lowering of the value of the dollar, which is essential for our export products to become competitive. Reduction of the deficit should be a priority target to ensure a more financially secure Agriculture.

2. FARM PROGRAMS. I feel that we cannot completely address the financial situation in Agriculture today without some mention of te existing farm programs.

I believe the best possible solution for the problems of Agriculture would be the most free market possible. However, it would be unrealistic to assume that existing commodity programs will vanish overnight. I am quite skeptical about the beneficial impact of the prevailing policies on producers, I would like to see support of those changes that will move present programs in the direction closest to the competitive marketplace, and hence, to profitability in Agriculture.

a) LOAN RATES - I support the setting of loan rates at levels that will operate (1) to stabilize commodity prices and dampen, if not stop entirely, the price swings that discourage investment and undermine producer confidence and (2) allow prices for commodities to be set by the workings of supply and demand rather than with reference to the loan rates, thereby avoiding the establishment of artificially high prices, the consequent loss of export markets to foreign competitors, and the stimulation of excessive production, and (3) are both flexible and enduring over the long-run, rather than merely an ad hoc reaction to temporary cnditions that must be revamped every year. Therefore, I favor decreasing the current level of loan subsidization and replacing it with a program of loan rates that fluctuate and are adjusted in accordance with but fall distinctly below the average of recent year's markets, without any artificial floor that might cause the loan rate to approach or exceed the market price.

b) TARGET PRICES - I would hope that there would no longer be any need to retain programs to prop up producer income. If, however, that need receives sufficient political support, the price supports established should float up of down with the loan rates rather than, as in the recent past, being fixed at some artificial figure unrelated to market prices.

3. TAXATION. At the current time, I feel that implementation of a flat tax would add additional burden to an already financially stressed Agriculture. I would urge that studies be initiated exploring the subsequent impact upon Agriculture.

I oppose any changes in estate tax laws that delays scheduled increases in credits or exemptions and, therefore, makes it more difficult to transfer farmland to the next generation.

Presently, I would not favor a tax increase. The theory may be fine on paper, that a tax increase would reduce the deficit, however, I am not convinced that a tax increase would totally be used in that manner, historically the more money Congress has, the more money Congress spends.

4. FARM CREDIT. This issue is the most difficult topic to address because of the emotional impact associated with the various options. Long term, rational decisions must survive this emotional earthquake if we are serious about opportunity and free enterprise within Agriculture.

I support governmental discretion to avoid becoming a last resort lender for troubled farmers who have no realistic chance to survive. I cannot see any benefit to overextending credit at subsidized interest rates that compounds budget deficits and creates unfair competition for other credit sources.

I am quite concerned about subsidized credit bailouts. While the short term results may be somewhat effective, I don't believe the consequences have been considered. When the lending institutions are forced or somewhat subsidized into offering reduced interest rates for their troubled farmers, the sound customers, also doing business at that institution, will be under pressure to pick up the tab for the loss. Lenders are not making enough money to offer these types of programs and suffer the subsequent losses, therefore the sound farmers will end up paying higher interest rates. I think this is unfair.

As the Agricultural Credit situation is addressed in 1985 we need to keep in mind that there are also sound farmers, who are not in dire financial trouble, within the United States today. We must be wary of developing a policy that penalizes these efficient producers for their success.

At the same time I would endorse the creation of a long term credit program that permits a credit extension to farmers with sound management and debt-to-equity ratio. This could be accomplished by a short-range program to restructure existing debt for farmers in jeopardy. Such action would avoid the domino effect of foreclosures, which results in diminished land values and reduces equity positions in well-managed farm operations.

Senator, I encourage you to give careful attention to the TAX EXEMPT "LOW FLOATER" BOND FINANCING FOR FARMLAND, that has been submitted to your office. This type of program offers Agriculture the same tools to use that is available to other industry. The bonds for farmland would be sold in a similiarr manner as industry bonds are sold now, allowing those of us in Agriculture a reduced interest rate on one of our most expensive capital items - farmland. And, the bond financing for farmland would not be a government program offered to farmers at the taxpayers expense.

The Farm Credit situation and 1985 Farm Bill go hand in hand. Farm Credit Programs will have direct as to the effectiveness of 1985 farm policies. Because of this, I believe we should first tackle the Farm Credit problems and develope a course of action, then begin serious strategy for the 1985 Farm Bill.

As a farmer and pork producer, I urge those of you in the policy-making positions to view the long term effects that your decisions of today will have upon my livelihood tommorrow. When you take away my opportunity to fail you also take away my opportunity to succeed.

As in the past, we in Agriculture have hope for the future. We hope 1985 will be the turning point toward prosperity. Of course, for some its too late to change course, and attention should be given to job retraining for farmers. For those who can remain in control of their farm businesses, there must be a commitment to financial awareness. Ultimately, the responsibility rests with the farmer.

Thank you.

NORTHWEST INDIANA WELFARE REFORM COALITION

Statement presented to field hearing of U.S. Senate Budget Committee conducted by Sen. Dan Quayle February 25, 1985, Hammond, Indiana

Submitted by Anna K. Williams, Co-chair

The Northwest Indiana Welfare Reform Coalition is a group of over twenty agencies and community groups that was first organized in 1970. It seeks to improve the welfare system at the local, state, and federal levels.

In 1953 Dwight Eisenhower, 5-star general in World War II and President of the United States, said: "Every gun that is made, every warship launched, every rocket fired, signifies in a final sense a theft from those who hunger and are not fed -- those who are cold and not clothed. This world in arms is not spending money alone -- it is spending the sweat of its laborers, the genius of its scientists, the hopes of its children."

We ask today: Where is it written that the main role of government is national defense and not the care of the hungry and the cold? Where is the sense in skyrocketing defense expenditures that fuel the arms race and don't buy us more security, at the same time that poverty and hunger increase in this land of plenty?

Poverty is a human deficit whose consequences are no less catastrophic than those of the budget deficit. Programs for the poor, already pared to the bone, cannot be expected to bear budget cuts "equally" when such programs have already absorbed one-third of all budget cuts in the past four years, and when they account for less than 10% of the federal budget.

Do not make any further reductions in foodstamps and child nutrition, AFDC, Medicaid and other medical care for indigents, Legal Services, heating supplements, subsidized housing, or social services.

The federal government cannot escape responsibility for human needs by putting the burden on the local community. We know from hard experience here that this burden is too much to bear -- by either the private or the public sector.

Please make no further budget cuts in this area.

AN AGENDA FOR BLACK PROGRESS

Prepared Statement by the
Council for a Black Economic Agenda *
January 9, 1985

After decades of progress in the United States, black Americans are as socially, economically and politically alienated as they have been at any time in their history. More than 50 percent of all black babies are born to single mothers, many of whom are children themselves. Half of all convicted felons are black. Educational attainment among black children is despairingly low, only one in seven scores above the 50th percentile on college entrance exams. Black youth unemployment is at an all-time high, reaching 58.2 percent by the end of last year. Only 11 percent of black Americans voted for the most popular president in U.S. history.

This grim reality lies in the wake of billions of dollars and 20 years of federal expenditures on programs specifically targeted to help this country's poor and disenfranchised minorities.

It is obvious that past strategies are not working. Even the once-aggressive innovative strategies of the sixties--culminating in landmark civil rights legislation--are no match for the development crisis that looms today and threatens to abandon as many as one-third of black Americans in a permanent underclass.

---

*NCNE President, Robert L. Woodson chairs this independent Council. Agenda revised February 1985.

Americans today must make a choice, either to agree to continue current social programs and policies as they are, or to accept the opportunity to modify and redirect those programs and policies.

The failures of current social policies are well-documented. Perhaps the most insidious is that they have created a class of citizens permanently dependent on government programs, a dependence that often passes from one generation to the next. Clinging to these discredited programs in times of fiscal crisis and budget cuts will only lead to the same ineffectual maintenance, but with less to go around.

We need alternatives to this bleak scenario. Without abandoning programs that, in fact, sustain the poor, we must reject policies that breed dependence and embrace those that promote development. We must give the recipients of services more power to improve their own lives. Such a program will not only get more money into the hands of those who need it, but will simultaneously promote an expanded economy.

The Council for a Black Economic Agenda was formed to identify and promote such a development program. Black grassroots leaders, scholars, government officials, business executives, and development strategists have united for this purpose and formed the Council, chaired by Robert L. Woodson, President of the National Center for Neighborhood Enterprise.

The Council, drawing on a broad range of experience in dealing with black social and economic problems and on a year of discussion and research as a group, proposes a new direction in U.S. public policy based on new ways of thinking.

People who are now "protected" by social programs need instead to be empowered by them. Policies should be geared toward maximizing the independence, economic opportunity, and freedom of choice of those receiving government-funded services and removing the barriers that inhibit individuals, indigenous groups, institutions, and other mediating structures from providing those needed services.

The Council believes that

- those most affected by the problems must be active participants in the solutions to those problems;
- strategies should be solution-oriented as opposed to problem-oriented;
- development should replace maintenance;
- strategies should represent positive-sum as opposed to zero-sum solutions;
- strategies should be based on the strengths and self-help resources of the black community, not on the perception that poor blacks are mired in cesspools of pathology and passivity; and
- cost-effective strategies should replace massive infusions of federal funds.

Recommendations prepared by the Council for the new Congress and the President center on economic development, housing, education and family development.

Economic Development

Most development analysts agree that a community's economic growth is directly tied to the rate at which businesses are formed and expanded to replace those that fail. Yet only about 8 percent of black Americans are in business for themselves, compared to 30 percent of Japanese Americans, who also have the highest median income and lowest unemployment rate of any group in society. In addition, between 60 and 80 percent of all new jobs are created by small, young companies, and not by the Fortune 500 corporations.

Economic incentives designed to increase the number of businesses expanded and formed in areas of high black unemployment should be proposed and vigorously promoted by the Administration.

Since the availability of risk capital is critical to the development and growth of new firms, the first step in a package for development proposals must be to promote capital investment. The President should support legislation allowing an immediate tax write-off for equity investments in small firms located in designated distressed areas.

To increase the likelihood that residents of these areas--both the working and non-working poor--obtain these newly created jobs, employers hiring disadvantaged workers should be given a tax credit equalling a percentage of the worker's wages. This proposal was included in the Administration's most recent Urban Enterprise Zone bill, and we urge that it receive the full support of Congress.

Tax savings realized by employers could be used, among other things, to further reduce the risks associated with hiring disadvantaged workers by paying local community organizations for recruitment, screening, and support services.

The Europeans have other innovative programs that might be considered by the Administration. In France, for example, any citizen who is entitled to unemployment compensation can elect to collect six months of benefits in a lump sum to invest in a business. Great Britain's "enterprise allowance" program allocates eligible working people an allowance of $60 a week in exchange for working at least 36 hours per week to establish a business. Participants must invest the equivalent of $1,500, from any source, into the business.

Technically, transfer payments for starting new businesses in the United States are illegal. Instead of penalizing entrepreneurship and self-sufficiency, however, we should look at ways to encourage it. We should, for example, allow unemployment compensation or other income transfer payments to be used to purchase education, skills training, or other support services needed to obtain employment, including self-employment.

Summary of Recommendations

- Allow tax write-offs for equity investment in small firms located in distressed areas.
- Offer financing incentives for investment or development in areas with an abundance of vacant and underutilized property.
- Adopt the Administration's proposed tax credit for hiring disadvantaged workers.
- Allow public assistance payments to be used to invest in a business or to purchase training or other support services that improve employment opportunities.

Housing

There are approximately 1.3 million public housing units in the United States that cost the federal government over $4 billion annually in subsidies to local housing authorities, despite thousands of poor people who are on waiting lists for housing. Yet more than 70,000 units remain vacant, often in a state of disrepair. Crime and vandalism run rampant and make many public housing developments some of the country's worst slums. Yet, the federal government continues to subsidize public housing authorities for units even when they are unoccupied, thereby providing little incentive for cities to make the units habitable.

The losers are the residents, local businesses, the community and ultimately all Americans.

Despite these deplorable conditions, however, cities and so-called allies of the poor continue to demand that the federal government build more public housing. Instead, subsidies for vacant units should be reduced or eliminated, encouraging cities to make vacant units livable.

The money saved in subsidies should be used to support public housing resident organizations in their efforts to restore and improve public housing through resident management and homeownership.

Resident management organizations in a number of cities have demonstrated that with proper support from the government, residents can successfully resurrect their communities. By involving residents in the decisions that affect their lives, resident management groups have built communities with a new sense of civic responsibility. Lower crime rates, lower unemployment and welfare dependency, decreased drug abuse, fewer teenage pregnancies, and greater rent collection have characterized these projects.

The Administration should draw attention to these inner-city miracles and encourage their duplication nationwide. Legislation that would allow resident management corporations to give first consideration to residents for maintenance and major repair work would provide more jobs and expedite the work.

Homeownership should be viewed as a major incentive for low-income families in public housing and distressed neighborhoods. The Department of Housing and Urban Development, through the Public Housing Homeownership Demonstration Project (HUD), has initiated this approach. The HUD design will allow everyone to learn from the demonstration and refine the process. Congress should work closely with HUD to build on this important first step.

Summary of Recommendations

- o Reduce or end federal subsidies to local housing authorities for vacant units.
- o Facilitate efforts of public housing resident organizations to improve public housing by supporting resident management, resident employment, and opportunities for homeownership.

Education

Poor black families who are struggling to educate their children must be given an opportunity to expand their educational options beyond the public school system. Despite recent efforts to improve the quality of public education, many inner-city children are trapped in inferior public schools. For many this means a life of functional illiteracy, unemployability and poverty.

Alternative, neighborhood-based independent schools started by black teachers and parents are operating effectively nationwide. More than 250 such schools have been identified by the National Center for Neighborhood Enterprise. Students attending these institutions often outperform their public school counterparts. Supported almost exclusively by tuition and modest fund-raising efforts, these schools are defying the notion that inner-city black children cannot learn.

Some form of voucher should be given to eligible parents so quality education can be purchased from schools of their choice. In other words, a voucher program much like the GI Bill for low-income families would provide these parents with the same kinds of options as middle-income and wealthy parents. Having a choice gives families dignity and self-worth.

In addition, there should be more public recognition by the Administration that independent schools are a rich, vital new resource in the effort to provide quality education for all children.

The black community has few if any programs that teach its youth to become producers of goods and services. There is no counterpart to 4H, Junior Achievers, or Future Business Leaders of America. Because entrepreneurial values and experiences are learned at an early age, we recommend that a national effort to teach black youth entrepreneurship be launched with the support of the Administration and Congress.

Summary of Recommendations

- o Adopt an education voucher program, similar to the GI Bill for low-income families.
- o Recognize the important contributions of independent neighborhood-based schools.

- Launch a national program to teach entrepreneurial values to black youth.

Family Development

Despite the myriad of problems facing the black family it continues to be the primary vehicle for the survival of the black community. Many of the programs intended to assist black families, however, are in fact undermining them. One such program is foster care.

There are nearly 300,000 children trapped in the repressive conditions of the current child welfare system. More than half of these children are black. Only 33,000 are legally free for adoption, but there are 25,000 to 50,000 more children who could be freed for adoption if aggressive efforts were made.

The cost of maintaining youngsters in foster care is approximately $2 billion annually. Recent evidence suggests that children who remain in the foster care system have a mortality rate twice that of the national average, and approximately 30 percent end up in the juvenile justice system. **We are incubating tomorrow's criminals at public expense.**

The black community has developed solutions that could substantially reduce the number of black children in foster care. Innovative neighborhood-based adoption programs for special-needs children should be studied and replicated nationwide.

Inappropriate placement of black children in foster care could be prevented by a greater utilization of traditional extended family networks in the black community. In addition, traditional institutions such as the black church should be given authority to recruit and approve potential black foster and adoptive families.

Another glaring problem facing poor working families is the shrinking percentage of take-home income. Work incentives for low-income families must be improved by expanding the availability of affordable quality day care, and increasing the earned income tax credit and the personal tax exemption for dependents. The Treasury Department's tax reform proposal takes the important first step of proposing to double the personal exemption. Whatever compromise tax reform plan emerges from Congress, this provision must be retained as vital to working families.

Summary of Recommendations

- o Stop implementing wasteful and ineffective family programs that are "parachuted" into black communities without input from the families involved.
- o Reproduce successful innovative adoption programs nationally.
- o Provide traditional institutions of the black community such as the black church with authority to recruit and approve potential black foster and adoptive families.

Toward a New Era of Black Progress

Black Americans must devote themselves now to the rebuilding of the black community.

We are at a turning point in our history. The era of the great civil rights marches is over. Blacks and all Americans owe a tremendous debt to those whose sacrifices won passage of civil rights legislation and aroused hopes that blacks would finally enter the mainstream of U.S. society.

But some time during the last 20 years the war on poverty got stuck in the trenches. Extraordinary government expenditures and the creation of a vast bureaucracy filled with "poverty professionals" failed to lift one-third of black Americans out of poverty. And at the same time that the family has deteriorated, a generation of people have been raised to be dependent on government money for a meager survival. Increased political power has not translated into economic gains.

Old strategies have run their course. New efforts must focus on ending dependence on government and encouraging the growing movement among blacks to rely on themselves for an improved life.

All across America, black neighborhoods are banding together to control their own destinies. Residents have taken over the management of public housing projects, started small businesses, and created their own social service programs that are sending children to college or providing them with job training. Concerned parents and teachers have devoted their lives to creating neighborhood schools that give black children a better chance for further education and employment.

Communities are discovering that previously unused talents and resources flourish when given the opportunity. Providing that opportunity should be the focus of governmental policies. Instead of maintaining people in their poverty, programs should foster opportunities for real economic and social advancement.

Successful local efforts have shown that the beneficiaries of such an approach are abundant: local businesses, local governments, and most importantly, communities of disenfranchised citizens.

In the 1983 publication, A Policy Framework for Racial Justice, a number of black scholars and members of the Black Leadership Forum argued that "the most urgent problems facing excluded blacks can best be addressed by focusing on three areas: the progress of the economy, the condition of the black family, and educational opportunity. . . . [T]hey provide a framework for constructing solutions to the real, structural failures in society and not just the superficial cracks and tears." They went on to say "that Americans must face the likelihood that greater--not less--government intervention and planning are required to revitalize the national economy."

The Council members agree with the focus on the economy, the family, and the quality of education as the keys to reversing the current isolation and deprivation of black Americans, but repudiate the notion that government-wrought solutions are intrinsically better and more effective than the self-help entrepreneurial strategies and resources already available in the black community. The indigenous strengths of black Americans, indeed all Americans, have always served as catalysts for growth, development, and prosperity. This Council's proposed policies build on these strengths.

For more information, call or write the National Center for Neighborhood Enterprise, 1367 Connecticut Avenue, N.W., Washington, D.C. 20036 (202) 331-1103.

National Center for Neighborhood Enterprise
1367 Connecticut Avenue, N.W., Washington, D.C. 20036 / (202) 331-1103

HOMEOWNERSHIP OPPORTUNITIES FOR PUBLIC HOUSING RESIDENTS

Public housing is most often viewed as housing of last resort. Despite the billions of dollars poured into public housing since its creation ($1.6 billion was appropriated in FY 83), the projects are riddled with crime, property damage, poverty and illness.

Many residents of public housing projects have lived there all their lives and remain there by choice, but the idea of low-income people solving seemingly intractable social and often economic problems is foreign to policymakers and to the general public. Residents of public housing want for their families exactly what all Americans want--safe, pleasant living conditions in which to raise their children, to work and to socialize. And it can happen.

In ten cities where residents manage their own public housing developments: crime rates are down; teenage pregnancies have declined; the number of female-headed households has decreased; administrative costs are down; vacancies and evictions are down; more residents are employed and rent collections are up.

The National Center for Neighborhood Enterprise is assisting in this effort to transform some of the most troublesome public housing communities in the nation into healthier neighborhoods. The effort is twofold: first, to increase the number of resident management groups and second, to help existing residents of public housing own their own homes.

Resident management and homeownership of public housing not only represents a positive image of people helping themselves but offers an approach to development unparalleled in its scope.

National Center for Neighborhood Enterprise
1367 Connecticut Avenue, N.W., Washington, D.C. 20036 / (202) 331-1103

HOMEOWNERSHIP OPPORTUNITIES FOR PUBLIC HOUSING RESIDENTS
Satellite Teleconference

In order to broaden the audience and the constituency for this housing initiative, the National Center for Neighborhood Enterprise (NCNE) will produce a live two-hour national satellite teleconference.

The satellite teleconference, two-way communications link, will originate in Washington, D.C. with 10 participating cities (tentative cities: St. Louis, Atlanta, Boston, Charlotte, N.C., Chicago, Houston, Jersey City, Louisville, New Orleans, Pittsburgh and Washington, D.C.).

The treatment of the program will include case studies performed in news interview style followed by informal but professional analyses and comments.

The resident management group at each site will enlist a corporate sponsor to provide financial resources to host the teleconference in its city.

The teleconference will be designed to reach more than 1,000 viewers, including public housing residents, public housing authorities, local officials and the general public.

In addition, this teleconference will bring the homeownership concept to the attention of opinion makers, journalists, policy makers and others who can work together to improve the quality of life for all Americans.

There are three audiences. First, the viewing audience; second is the special screening a videotaped edited version, or segments from each of the sites that will reach an additional 2000-3000 people within a year. The third audience is in the home through public television or cable systems. We project that between 500,000 to 1 million people will see either the entire program or an abbreviated edited version.

THE KENILWORTH-PARKSIDE RESIDENT MANAGEMENT CORPORATION:
AN EFFECTIVE EXAMPLE OF PRIVATIZING PUBLIC SERVICES

STATEMENT

OF

CICERO WILSON

Resident Fellow and Director
Neighborhood Revitalization Project
American Enterprise Institute

before the

Joint Economic Committee

September 28, 1984

The views presented in this statement are those of the author and do not necessarily represent those of the American Enterprise Institute.

Mr. Chairman, thank you for the opportunity to testify before this committee. The views I will be presenting are my own and do not necessarily represent those of the American Enterprise Institute.

The Kenilworth-Parkside Resident Management Corporation is an experiment in privatizing the management of public housing and developing self-sufficiency for low-income welfare-dependent families. The tremendous improvements in social and economic conditions at Kenilworth are a result of good management, effective social controls and real economic incentives. It is a replicable model which can be successfully implemented in other distressed communities and public housing complexes.

Kenilworth-Parkside is a 25-year-old low-rise public housing complex in northeast Washington, D.C. Until recently the community was overridden with drugs and crime. The units received no heat or hot water for almost 3 years between 1979 and 1981. Teenage pregnancies were frequent and 85 percent of the families relied on transfer payments for a major portion of their annual income. Approximately 30 percent of the families were totally dependent on welfare for their support.

In 1982 the residents, through the resident board and the newly created resident management corporation, began to manage the 464-unit complex. Specific housing management training provided by the District of Columbia and the residents' experiences fighting the former management firm and running social service programs (i.e., day care and college/post-secondary training programs) prepared the residents to assume management of the complex. Their success has been outstanding. In the past two years, Kenilworth has reduced teenage pregnancies by 50 percent, reduced welfare dependency by

50 percent, reduced crime by 75 percent, and increased rent receipts 130 percent from $56,000 per month in 1981 to $83,000 per month currently.

In addition to the tremendous increase in rental receipts, the KPRMC also reduced administrative and operating costs. Referring to Table 1 "Per Unit Monthly Cost Comparison," the KPRMC reduced administrative costs by 64 percent in their first year of operation and 60 percent in the second year in comparison to the costs of the previous management system baseline in 1981. Ordinary maintenance costs were reduced by 26 percent in the first year and 20 percent in the second year in comparison to the baseline. Kenilworth is generating enough rental revenue to pay all of its $440,000 in operating expenses and 90 percent of the approximately $500,000 in energy costs. If adequate investments are made in upgrading the heating plant and insulation in these 25-year-old units, then the KPRMC could reduce energy consumption by 20 percent and realize a substantial profit which could be used to create more jobs for residents.

The KPRMC was able to bring about this small miracle by: First, instilling a greater sense of social responsibility among the residents. Residents were educated about their responsibilities to respect their neighbors, to keep the units and grounds clean, to reduce damage due to vandalism, and to pay their rent on time. Part of the residents' social responsibility included helping themselves and their children improve their skills and earning capacities. It is not acceptable to collect welfare and watch soap operas all day. There is a strong self-improvement ethic at work in Kenilworth.

Second, the KPRMC and the resident council assist families increase their incomes through job training, job creation and a network of social

TABLE 1

PER UNIT MONTHLY COST COMPARISON

	Conventionally Managed (In Thousands)	Tenant Managed (In Thousands)	
	9/81	9/83	9/84
Operating Receipts			
Rental Income	$ 60.14	$ 101.00 (+67.9%)	$ 130.52 (+117%)
Operating Expenditures			
Administration	17.48	6.34 (-63.7%)	6.94 (-60.3%)
Utilities (Labor)	6.19	7.77 (+26%)	8.40 (+35.7%)
Ordinary Maintenance	74.31	54.73 (-26.3%)	59.69 (-19.7%)
Non-routine Maintenance	0	2.26	---

services designed to facilitate participation in the labor force. The resident council operates training programs for 80 adults and youth at Kenilworth, and a post-secondary assistance program which has sent 480 youth to colleges and technical/vocational schools. The Resident Management Corporation has created 120 jobs through 6 new businesses and 2 joint ventures with private firms.

The heightened responsibility of the residents has increased their participation in all of these self-improvement services and enterprises. This, in turn, increases their earnings and provides adequate rental income and consumer spending power to manage the units and support the new businesses. Referring to Table 2 "Resident Income," overall resident income from all sources has increased by 26 percent from $2,287,000 to $2,548,000. More importantly, while overall income is rising, the increase is due to more income from work and less from welfare. Income from work increased by 27 percent from $1,016,000 to $1,287,000 over the 2½ years that the KPRMC has been operating. Income from welfare has dropped 28 percent during the same period from $904,000 to $650,000. One-quarter of the 353 families we studied have left welfare entirely, and families that are totally dependent have decreased by 50 percent. With more residents going to work and less dependent on welfare the incomes of the families will continue to rise. Please note that there are still impoverished families at Kenilworth. In Table 3 "Tenant Rents," one-third of the families pay $100 or less for rent per month, and 6 percent pay under $50. The revenue success at Kenilworth is due to both rising family incomes and everyone, without regard to level of income, faithfully paying their rents.

TABLE 2

RESIDENT INCOME (All Sources)
(Thousands)

	Total	(Mean income)
1981	2,287	(7,624)
1982	2,605	(8,272)
1983	2,727	(8,045)
1984	2,312	(8,660)

Sources
(Thousands)

	Work	(mean)	Public Welfare	(mean)
1981	1,016	(8,470)	904	(4,323)
1982	1,171	(8,675)	894	(4,341)
1983	1,429	(9,593)	828	(4,080)
1984	1,262	(10,265)	650	(4,041)

TABLE 3

TENANT RENTS

Hl = 512
Lo = 6
Monthly = 68,609.50

1 - 10 = 2 (1,1)	.0043 = .4%	
11 - 50 = 27 (3, 3, 1, 6, 14)	.0590 = 5.9%	
51 - 100 = 153 (25, 12, 9, 49, 58)	.3347 = 33.5%	
101 - 200 = 138 (9, 18, 29, 32, 50)	.3019 = 30.2%	
201 - 250 = 47 (3, 6, 10, 11, 17)	.1028 = 10.3%	30%
251 - 300 = 35 (1, 8, 6, 13, 7)	.0765 = 7.7%	19.7%
301 - 350 = 33 (0, 3, 9, 9, 12)	.0722 = 7.2%	12%
351 - 400 = 14 (2, 2, 2, 6, 2)	.0306 = 3.1%	
401 - 450 = 5 (0, 0, 2, 3, 0)	.0109 = 1.1%	
451 - 500 = 2 (0, 0, 1, 0, 1)	.0043 = .4%	
501 - + = 1 (0, 1, 0, 0, 0)	.0021 = .2%	
457 units	100%	

6.3%	$50 and under
33.5%	51 - 100
30.2%	101 - 200
30%	over 200
19.7%	over 250
12%	over 300
4.8%	over 350

Third, the Kenilworth model combines services and jobs with effective management procedures into an effective blend of sanctions and incentives. Neither sanctions nor incentives alone, in my opinion, are sufficient strategies for improving the conditions and management of public housing. Sanctions such as fines for destroying property, replacing appliances damaged by resident negligence with used rather than new appliances and the community peer court to resolve disputes and impose fines are powerful tools to shape attitudes and behaviors. Incentives such as jobs and the opportunity to start your own business with financial support from the KPRMC are equally powerful.

Fourth and finally, the KPRMC manages the units responsibly. They rigorously adhere to maintenance schedules, and the rent collection and income verification procedures are consistent and thorough. As Mrs. Kimi Gray, Chairman of the Resident Council, noted "Since the management staff live at Kenilworth--when the heat and hot water are off for the residents--they are off for the managers too. And the first rents we check to see if they were paid on time are the rents from the management staff and board members." There are no incentives for the management staff to cut corners.

Based on the experience at Kenilworth, I recommend that:

1. Resident involvement be made a standard feature of any models for privatizing the management of public housing. Preferably, residents should be involved through an elected resident council and a separate resident management corporation. The corporation could manage the property--after

proper training--on its own or in equity partnership with a private property management firm.

2. Modernization funds should be used to upgrade properties before a private sector organization is given responsibility for management.
3. Congress should work closely with HUD on the homeownership initiative. HUD, through the Public Housing Homeownership Demonstration, is approaching this effort very appropriately. The HUD design will allow everyone to learn from the demonstration and refine the process. Congress should be hesitant to charge too far ahead of the demonstration.
4. Homeownership should be viewed as a major incentive for low-income families in public housing and distressed neighborhoods. Part of the economic success of Kenilworth was due to residents paying their rents on time to qualify for 20 town houses which KPRMC envisions building for the most responsible residents.
5. Caution should be exercised in the selection of private firms. Remember the deplorable conditions at Kenilworth were the responsibility of government agencies and a private contractor. In my opinion, without the involvement of residents in the ways that I have described, no arrangement, public or private, will accomplish the goal of improving the management of public housing.

Thank you.

WILLIAM L. ARMSTRONG,
CHAIRMAN
MARK ANDREWS
JOHN H. CHAFEE
THAD COCHRAN
JOHN C. DANFORTH
ROBERT DOLE
PETER V. DOMENICI
JAKE GARN
BARRY GOLDWATER
ORRIN G. HATCH
MARK O. HATFIELD
JESSE HELMS

United States Senate
REPUBLICAN POLICY COMMITTEE
RUSSELL SENATE OFFICE BUILDING
WASHINGTON, DC 20510

RICHARD G. LUGAR
JAMES A. McCLURE
CHARLES McC. MATHIAS, JR.
FRANK H. MURKOWSKI
BOB PACKWOOD
WILLIAM V. ROTH, JR.
ALAN K. SIMPSON
ROBERT T. STAFFORD
STROM THURMOND
LOWELL P. WEICKER, JR.

ROBERT E. POTTS,
STAFF DIRECTOR

February 25, 1985

Dear Republican Colleague:

I am enclosing information on the proposals presented by Mr. Robert L. Woodson and his colleagues at last Friday's lunch in the Policy Committee.

Mr. Woodson, as you know, is the chairman of the Council for a Black Economic Agenda and he is also the president of the National Center for Neighborhood Enterprise.

As Mr. Woodson said during his talk, he is not urging us to simply be "cheap Democrats", rather he asks us to support a new direction in public policy for the benefit of the urban poor. Many of his ideas are already included in our Party's platform and the President's State of the Union Address. I am eager to help with this effort and ask that you call on me or members of the Policy Committee staff if you wish to follow up on any of the ideas outlined in this material.

Best regards.

Sincerely,

William L. Armstrong

The Council for a Black Economic Agenda

The Council for a Black Economic Agenda was founded to help make black Americans more economically independent. It seeks to reverse the growing dependence of millions of black Americans on governmental transfer payments and to promote new strategies that lead to greater economic self-sufficiency.

After decades of progress in the United States, black Americans are still socially, economically and politically alienated. The Council believes that the only effective way to help the poor and the disadvantaged is through locally-based efforts rooted in the spirit of free enterprise and individual initiative.

The Council believes that:

- those most affected by the problems must be active participants in the solutions to those problems;
- strategies should be solution as opposed to problem oriented;
- development should replace maintenance;
- strategies should represent positive sum as opposed to zero sum solutions;
- strategies should be based on the strengths of self-help resources in the black community, not on perceived cesspools of pathology and passivity; and
- cost-effective strategies should replace massive infusions of federal funds.

The Council recommends:

- legislation allowing an immediate tax write off for equity investments in small businesses situated in distressed areas;
- financial incentives for development of areas with vacant and under used property, and for employers in underdeveloped areas to hire and train workers from among the black poor;
- shift from housing subsidies for the poor to a program of underwriting rehabilitation, ownership and management of public housing units by responsible organizations of residents;
- increase work incentives for poor families by boosting the earned income tax credit and the income tax exemption for dependents, providing affordable day care for children of working parents, and allowing unemployment compensation and other government income payments to be used for education, job training or self-employment; and
- black churches and other neighborhood institutions should be authorized to arrange adoptions of thousands of children trapped in the government's $2 billion foster care system.

Council for a Black Economic Agenda
1367 Connecticut Avenue, NW
Washington, DC 20036
202/331-1103

COUNCIL FOR A BLACK ECONOMIC AGENDA
ACTION AGENDA
February 22, 1985

Recommendations

1. Allow individual taxpayers to write off investments in enterprise zone small businesses.

It is widely acknowledged that new, young firms create most new jobs. The rate at which these companies are formed and expanded depends heavily on the availability of risk capital. Most of this seed capital comes not from government or institutional sources but from personal savings. This proposal would encourage investors to finance business formation in enterprise zones thus creating job opportunities for inner-city residents.

2. Increase the "phase-out" income level for the earned income tax credit to $12,000.

The earned income tax credit was originally proposed as a means of eliminating the payroll tax for low-income workers. Coverage of the credit has not kept pace with increases in wages or payroll tax rates. Increasing the level of income at which the credit begins to phase out would add significantly to the disposable income of many poor families.

3. Adopt the Administration's proposal to give employers a 50 percent wage credit for hiring disadvantaged workers.

The Administration's current enterprise zone bill calls for a declining 50 percent wage credit to be paid to zone employers who hire and train disadvantaged workers. This credit would provide a deeper and more powerful incentive than the Targeted Jobs Tax Credit which is scheduled to expire next year.

4. Retain rapid tax write-offs for investments in low-income housing.

Along with ACRS, Section 167(k) of the Internal Revenue Code makes it possible to raise private capital for the modernization of public housing through "privatization." Keeping these provisions in place would allow resident management and ownership groups to finance needed improvements to units that they operate.

5. Require the Department of Labor to experiment with the use of unemployment insurance to finance self-employment.

In Britain and France, workers are allowed to use unemployment compensation payments to create their own jobs through self-employment. These programs have been successful enough to warrant experimentation in this country. The Labor Department should be required to experiment with the use of unemployment insurance payments for job creation in at least five to ten states.

6. Support legislation tying expenditures of modernization funds for problem public housing developments to resident management and incentive programs. Support "right to buy" legislation for public housing residents.

Evidence shows that resident management reduces both the operating and capital costs of public housing. Our proposals would give public housing residents effective incentives to upgrade and maintain their units.

7. Give pilot project authority to the Department of Education for a three-city demonstration of educational vouchers using existing Title I allocations.

There is now evidence that competition among public and private schools can increase the quality of education received by low-income youngsters. An experimental voucher program offers a reasonable vehicle for testing various approaches to educational competition and innovation without substantial public risk or cost.

Council for a Black Economic Agenda
Robert L. Woodson, Chairman
1367 Connecticut Avenue, NW
Washington, DC 20036
331-1103

U. S. SENATE BUDGET COMMITTEE

FEBRUARY, 1986

I greatly appreciate this opportunity to share with you my concerns re the 1986 Budget.

I am Alen Wyss, a Certified Public Accountant, for 37 years a Small Businessman as a distributor of building materials, primarily in the Midwest.

In conversing with Small Business people in the Rust Bowl, as well as in the Sun Belt, their greatest fear is the return of inflation and high interest rates - for many a fear of hyper-inflation, for a study of history shows that every nation that has borrowed beyond their ability to repay solved their dilemna with the printing press. I believe the deficit should be brought under control NOW by severely cutting expenditures and some tax increases.

Most everyone I have spoken with is willing to sacrifice some of their government services as long as the cuts are fair and equitable. This includes the Defense Department.

Small Businesses are well aware of the challenge facing the Pentagon for we are all, from time to time, faced with a similar challenge from our competitors; however, when we must make major improvements in our equipment or facility and the necessary financial needs exceed our ability to finance, we have to divest ourselves of a division or property no matter how important it may appear to be. So, too, if Star Wars funding becomes a burden, then some lesser division of our Defense Department should be discontinued to provide the necessary funding, for no budget was ever developed that could not be cut by 5%.

I don't believe any vested interest group should suggest cutting other's programs without first trimming their own. So, too, the Small Business people. Although the SBA does provide much needed services to the Small Business person, I would much prefer to its elimination than allow the deficit to continue to spiral. The information and education services of the SBA can be served by the vast network of Small Business Councils set up especially since the White House Conference for Small Business and the loan requirements can be handled by existing financial institutions through special tax incentives for small business start up loans.

Similarly, in the cause of deficit reduction, other agencies could be eliminated. I am not suggesting that if adquate funds were available that these agencies would not be desirable and well could be expanded. These would include the Department of Energy, Education, Council of Economic Advisors, the elimination of Revenue Sharing and the implementation of the Grace Report.

Many individuals are not now carrying their fair share of the tax load. This could be solved by revising the minimum tax provisions of the present I.R.S. code to be more inclusive. Also, a small consumer tax should be implemented to catch those who have unreported income (either legal or otherwise) perhaps piggy-backed on top of existing state sales taxes.

All of these expenditure savings and added tax revenues should be dedicated to deficit reduction and otherwise untouchable.

- Small Business people generally like the buzz word "Tax Simplification", however, I think it should be placed upon the back burner until the deficit is brought under control. Really, as far as we are concerned, the only thing simple about tax revision, will be it's name, for the final law no doubt will be 2000 pages long and take years of interpretation and regulations before it will be totally implemented. This will prove to be an utter nightmare for us, as a small business person does not have the staff to analyze it and consequently will consume a tremendous amount of the owner's time.

A Small Business person, besides their expertise, has only two things going for them - their time and their ability to manage. When their time is consumed by an endless stream of paper work and the interpretation of constantly changing and new laws, rules and regulations, his time for management is seriously jeopardized resulting in less profit, fewer funds available for capital expenditures and consequently fewer jobs - this from the one segment of our society which can provide jobs in the future.

One of the principal tools for a small businessman to engage and reduce the turnover of employees, is through fringe benefits. In my case, for example, of my 65 employees, 52 have been with me over 10 years, with 19 over 25 and 9 - 35 years. Most of the fringe benefits are at no cost or a reduced cost to the corporation. Now the Tax Planners are threatening to restrict them as a tax raising scheme. These include personal use of company property, tax-free loans, medical and life insurance, etc. In order to offset this loss of income, the company will have to increase their salaries sufficiently to cover the income, Social Security and Unemployment Taxes as well as the tax on the added income. This added salary will be a deduction to the corporation at a rate normally higher than the employee is paying, thus will result in reduced tax revenues, plus making liars out of otherwise honest workers. In addition, the nightmare of paperwork and enforcement required will place an added burden upon the owners TIME. In addition, the threat of eliminating an interest deduction for second homes has seriously reduced the sale of mid-priced resort homes and condominiums which once again results in reduced tax revenues.

A couple of weeks ago, my wife and I were touring a Nature Preserve when the little girl next to me looked up and asked "Mister, where did all the birds go - why are there so many empty nests?" I said "Melissa, years ago those of us who could have, failed to have the vision to preserve the wonders of nature for the likes of you." Then I only wondered what you are going to say 20 years from now when a high school student comes to you and says "Senators, where did all the the Small Businesses go - why are there so many empty desks?"

Small Business is asking you for nothing at all. We're simply saying - "GET OFF OUR BACKS AND OUT OF OUR POCKETS AND RETURN TO US THE TIME WE NEED TO MANAGE OUR BUSINESSES."

Thank you very much.

ALEN G. WYSS, PRESIDENT
OLD FORT SUPPLY COMPANY, INC.
FORT WAYNE, IN

○